WEDNESDAY FEBRUARY 3 1999

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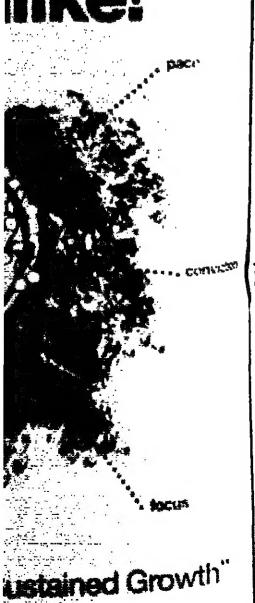
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**Elections in Turkey** Struggle for the hearts and minds of the Kurds Page 3

World Business Newspaper http://www.FT.com



Target currency zones **US** agreement not necessary Martin Wolf, Page 14



**DaimlerChrysler Cultural chailenges ahead** for Renschler, the integrator Interview, Page 12

IMES

Digital Marketplace Companies embrace IT to keep customers happy Separate section

#### WORLD NEWS

#### Albanian rebels agree to attend Kosovo peace talks

Ethnic Albanian rebel commanders in Kosovo have soreed to send a delegation to peace talks as Nato warned that the Serbian government would face air strikes if it falled to join the negotiations. Page 16; US debates commitment of ground troops, Page 2

Brussels says aid helps regions The European Commission warned of the dangers of the European Union cutting regional aid, after publishing "Indisputable" evidence that the funds narrow the gap between rich and poor areas. Europe, Page 2; Finland to use presidency to emphasise reform, Page 3

Ecuador slates US and EU Ecuador, the world's largest banana exporter, reproached the US and European Union for trampling on its interests while exploiting the transatiantic banana dispute for their own purposes. Trade, Page 9

French senate holds up legislation important pieces of the French government's legislative programme are being held up by the senate, the second chamber of parliament controlled by the centre-right, Europe, Page 3

Hungary realffrans Croatlen plan Hungary's prime minister has reaffirmed plans to sign a free trade agreement with Croatia, a move that may contravene European Union law and provoke a dispute over Hungary's entry to the EU. Trade, Page 9

Fischer calls for strategy on Russia Joschka Fischer, Germany's foreign minister, said the European Union had to adopt a strategy towards securing democratic and institutional reform in Russia. Europe, Page 3

Gibraitar secures fishing deal Peter Caruana, Gibreltar's chief minister, has secured a bilateral and a conflict over the use of waters around the disputed British colony. Europe, Page 2

Study Therapse 🖓

Algerian presidential race heats up Algeria's presidential election campaign began in earnest when Abdelaziz Boutefilica, the former foreign minister believed to be. backed by the army, announced his candidacy. International,

india restores food subsidies india's governing Bharatiya Janata party bowed to protests from its coalition partners and withdrew a series of cuts to food subsidies affecting the country's poor. Asia-Pacific, Page 8

US-Pakistan talks make progress The US and Pakistan reported progress in talks at which Strobe Talbott, US deputy secretary of state, urged Islamabad to accept International nuclear safeguards. Asia-Pacific, Page 8

Yemeni tribesmen release hostages Tribesmen in Yemen have freed a Dutch family and a British couple unharmed more than two weeks after they were abducted.

Eight killed in Gzech bus grash A bus crashed into a truck parked on highway north of the Czech capital of Prague, killing eight people and injuring 26.

#### **BUSINESS NEWS**

#### Commodity prices may never recover warns World Bank

for emerging economies, the World Bank said. Companies and markets, Page 17; Commodities, Page 28

Preussag. German leisure, travel and industrial group, is to raise about DM2bn (€1.02bn, \$1.1bn) for tourism interests, which have replaced steel, coal and engineering as its core activity. Companies and markets, Page 17

UK Active Value, fund manager, raised \$800m to target underperforming companies in northern Europe. Companies and mar-kets, Page 17

Keramic Laufen, Europe's second biggest sanitary ware manufacturer, and rival Sanitec are understood to be considering a crossborder merger to create Europe's biggest sanitary ware company. European companies, Page 18

biotechnology company, is con-sidering a stock market listing in New York and Reykjavík, Inter-national companies, Page 22

**Eurotunnet**, Channel Tunnel operator, paid £38m (\$62m) to repurchase £134m of loan notes Issued as part of last year's financial restructuring. UK compenies, Page 24

Alphatec Electronics creditors approved a debt restructuring plan for the alling Thai semiconductor company. Companies and markets, Page 17

Saneral Motors, US carmaker, is to take full control of its joint venture with the C. K. Birla Group, the Indian engineering and motor company. US compa nies, Page 20

has agreed to pay \$214m to raise its stake in Smart Communications, the Philippine cellular telecommunications operator, from 15 to 37 per cent. Asia-Pacific companies, Page 23

That Petrochemical Industry is to pay interest on loans to creditors who voted for its \$3.2bn debt restructuring. Asia-Pacific com-

Bank of East Asia, Hong Kong based bank, reported a 415 per cent increase in provisions for bad and doubtful loans, Asia-Pecific companies, Page 23

targest broker, is considering seiling its equity stakes in several large Japanese companies before the end of the financial year. Asia-Pacific companies, Page 23; Dentsu link, Page 22

Energia shareholders, vote tomorrow on the sale of Chile's biggest electricity distributor's 25 per cent holding in Endesa Chile. Latin American companies,



Global commodity prices may never fully recover from their historic lows of the past 18 months. with far-reaching consequences

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Nomure Securities, Japan's



#### WORLD MARKETS

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# Goodyear to link with Sumitomo

# Goodyear Tire & Rubber, of the

US will today unveil the biggest ever US industrial deal in Japan by taking a controlling interest. in the tyre business of Sumitomo Rubber Industries, the second largest Japanese tyre maker. The deal, to be termed a global

alliance between the two companies, will make Goodyear the largest tyre group in the world ahead of Michelin of France and Bridgestone of Japan.
It is likely to set off a wave of speculation about further consoli-

dation in the \$75bn industry and copycat US-into-Japan deals in other sectors. According to people close to the deal, the complex transaction will result in Goodyear taking a

controlling investment in the

Japanese company's US and

eral years be able to take 100 per cent control of the US and European joint ventures. Six joint venture agreements are to be unveiled today in New York. Together they will have

One person close to the deal

agreement, Goodyear will in sev-

the Japanese market.

combined annual sales of approximately \$4.6bn, in effect adding about \$2.5bn to Goodyear's annual sales of about \$12.5bn. Sumitomo has about \$3.8bn of annual tyre sales, including about \$1hn in Japan. Goodyear declined to comment

yesterday and Sumitomo could not be reached for comment. The deal, if completed, could

European tyre interests. In addi- lead the way for a number of tion, the deal will also give the other US takeovers of Japanese US company a firm foothold in companies. In recent months there have been a spate of deals among US and Japanese financial said that, under the terms of the

US tyre group will take controlling stake in Japanese business

services groups, but few signifi-cant industrial deals. Goodyear, Michelin and Bridge stone now make up a leading group of three in the global tyre industry, and there is likely to be speculation about whether smaller companies such as Yokohama of Japan and Continental

of Germany will be able to remain independent. Four of the joint ventures will be operational agreements and two are support ventures. Goodyear will also take a 10 per cent stake in Sumitomo Rubber, and the Japanese group will take the same dollar value stake in the US

Hugo Chávez, left, was sworn in as

fenezuela's new president, as for-

mer president Rafael Calders, con-

tre, looked on. Report, Page 4;

Editorial Comment, Page 15

The North American joint venture will be majority owned by Goodyear and will comprise both Sumitomo's US tyre plants.

It will have sales of about \$800m. Goodyear is the largest north American tyre company with annual US sales of approximately \$6bn and the Sumitomo plants will reinforce that lead.

The European joint venture will also be majority controlled by Goodyear, and will have annual sales of about \$4bn and 25,000 staff. It will make Good-year the second largest European tyre company behind Michelin of France, with a market share of approximately 20 per cent.

Dunlop, acquired by Sumitomo more than a decade ago, is said by analysts to have lost part of its status as one of Europe's leading tyre brands. Linking with

revitalise the group's presence

across the contine There are to be two Japanese joint ventures, one for replacement sales and one for original equipment. While both are to be majority controlled by Sumitomo. they will give Goodyear a solid foothold in the world's second

largest tyre market. A fifth joint venture will see the two companies share research and development technology, creating a unit that will spend approximately \$550m a

The sixth is a purchasing joint venture, controlled by Goodyear. This is expected to yield annual synergies of about \$300m.

Morgan Stanley Dean Witter advised Goodyear and Warburg Dillon Read advised Sumitomo.

# Plan for BoJ to underwrite bonds

#### By Michiyo Nekamoto and Gillian Tett in Tokyo

A key member of Japan's ruling Liberal Democratic Party has to allow the Bank of Japan to underwrite Japanese government bonds in an effort to ensure a market decide." he said. sustainable economic recovery. Ichiro Ohara, a close adviser to

prime minister Keizo Obuchi. wants the BoJ to buy an agreed amount of government bonds over a two-year period. This can be done with the understanding that it is a temporary measure," said Mr Ohara.

"We have to work with all our might to revive the economy." His proposal highlights growits efforts to resuscitate the econground of sharply rising bond

The yield on the benchmark 10ministers were forced to reassure the markets that the economy

rising interest rates. Taichi Sakaiya, economic planning minister, insisted that bond Bonds, Page 26

mal" and would not affect corporate spending.

And Kiichi Miyazawa, finance minister, said the government would not intervene. "I will monitor (the yields) carefully if the move becomes abnormal but for the moment we should let the

The rise in yields helped push the yen up sharply against the US dollar. The markets also reacted to remarks made by Elsuke Sakakibara, deputy finance minister for international affairs, who repeated his view that the US economy was heading for a downturn and that trade tensions would increase.

The US currency - which fell to an intra-day low of Y112.90 in ing concern within the ruling Tokyo - again dipped below Y113 party that Japan has exhausted in European trading, Y2 lower than its close on Monday.

Mr Sakakibara said Japan's omy and comes against a back- financial crisis was over or ending. "I think it will be over in one or two weeks," he said.

Under Japanese law, the canyear government bond contract tral bank is not allowed to undersurged to 2.31 per cent yesterday, write government bonds directly its highest level since July 1997. and there is strong resistance to Senior Japanese government the idea at the Bank itself, on the grounds that it could re-ignite inflation and undermine the indewould not be too badly dented by pendence of the cantral bank.

yields of 2 per cent were "nor- Currencies, Page 27



# Brazil bank chief goes after 3 weeks

By Gooff Dyer in São Paulo and Richard Waters in New York

Brazil has changed its central bank president for the second time in less than three weeks as the government scrambles to rebuild its credibility after last

month's forced devaluation. President Fernando Henrique Cardoso nominated Arminio Fraga, a former director of the central bank, to be the new presi-

dent, pending approval by the Senate. Until last week Mr Frage. was a managing director of Soros Fund Management, which runs the investment funds of George Soros, the billionaire investor.

Mr Fraga would replace Francisco Lopes, who took over as

president on January 13 when the government abandoned its currency peg to the dollar and whose appointment was only passed by the Senate last week. Despite the uncertainty, the Real continued to strengthen against the dollar, with investors

confident the government would sign a revised financing agreement with the international Monetary Fund this week. By mid-afternoon, the Real was at R\$1.75 to the dollar, after closing at RSI.92 on Monday. Shares

prices were higher. The surprise change of personnel at the central bank was actually welcomed by investors, who said that Mr Fraga would have more experience of international financial markets and of how the new floating currency regime should operate.

"He's a very respected economist, and I think markets will take this positively," said Mar-celo Carvalbo, chief economist for JP Morgan in Brazil.

However, Mr Fraga's close association with Mr Soros, whose funds have been accused of provoking currency crises in other countries, could cause political problems, notably from the left opposition. José Dirceu, the national presi

dent of the leftwing Workers'

party, described the appointment

as a "true scandal". He added: "The government has delivered the central bank into the hands of one of the biggest speculators in the world, the Soros group." At a press conference to explain the departure of Mr Lopes, Pedro Malan, finance min-

ister, said the move did not mean any change in the new floating exchange rate policy.

He denied that Mr Lopes' resign nation had been the result of pressure from the IMF, which he said had not been consulted over

the matter. However, investors were unsettled by Mr Malan's admission that both he and Mr Lopes had in São Paulo were 2.6 per cent lower, while international bond offered their resignations to Mr Cardoso last week. "There must have been some disagreement between Lopes and Malan," said Antonio Carlos Magalhães, president of the Senate.

Hedge-fund poscher, Page 4 Brazil kurches, Page 20

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# US debates Kosovo troops commitment

The Clinton administration debate whether to commit ground troops to Kosovo, as US intelligence chiefs painted a pessimistic picture of developments there and said a Nato ground force would be essential part of a

solution to solve the conflict. "We believe that we are on the verge of a dramatic deterioration of the Kosovo crisis as the limitations of winter weather pass." George Tenet, director of the Central Intelligence Agency,

said yesterday. Mr Tenet and Lt General

the Defence Intelligence yesterday continued to Agency, told the Senate armed services committee, that they viewed ground forces as essential to resolve the conflict. However, they conceded

that the mission in Kosovo would be fraught with more danger than that of the peacekeeping force in Bosnia because the parties to the conflict were not yet exhausted and because the terrain and geography was

supporting a peace agreement in Kosovo, saying it was a political decision. William Cohen, defence secretary, said on Monday that no decision had been taken on whether to commit US troops - or whether they

should be placed under a for-

eign commander - but that

President Bill Clinton had

received preliminary briefings on the issue. "My personal view is that our European allies must bear a substantial burden in terms of dealing with Kos-

ovo and that any participa-

whether US troops should be tion by the United States instability in Kosovo could 6,900 remain. In Kosovo, the committed to a Nato force should be as small as it undermine gains in Bosnia US contingent would be could be, given the military protection," Mr Cohen said.

Mr Tenet described the ceasefire negotiated last October as "near collapse", saying both sides were preparing for heavier fighting than in the spring. Mr Cohen said members of Congress would be consulted

before a decision was taken on whether to commit troops. Some support was evident vesterday among lawmakers. Senator John Warner, the Republican who chaired the committee, said

should be as small as it undermine gains in Bosnia US contingent would be and put US troops at greater

Senator Joseph Lieberman, a Democrat, said he was encouraged to hear-that the portion of US troops would be lower than at the outset in Bosnia. "And if one of the condi-tions of that is for the Euro-

peans to assume more responsibility, including command of those troops, I think we have to be pre-pared for that," he said. The US initially committed 20,000 troops to Bosnia, the

tially - reportedly 5,000 to 7,000 of a roughly 30,000strong contingent.
Alain Richard, French

defence minister, said yester day that France would provide a sizeable contingent to to ensure Europe was the single largest contributor.

Without any prejudice to the negotiations, we are preparing to contribute, together with our allies and especially our British partners, to set up a force to back up an accord if one is

# ITALIAN INDUSTRIAL ACTION

## Metalworkers to strike over wage bargaining

**NEWS DIGEST** 

Italy's 1.8m metalworkers yesterday announced a four-hour strike to take place on February 18, in protest at the failure of employers to agree a new format for wage Just 24 hours after the Italian government formally

signed a new social contract with employers and trade unions, Italy's metalworkers - the largest labour sector is the country - announced the strike, warning that it could herald a new spiral of industrial action.

The strike has been called after the refusal of Federman canica, the employers' association for the sector, to accept wage bargaining at both national and company

"Federmeccanica is insisting that there should be only one round of negotiations and is refusing to enter into any discussion on cutting working hours," said a spokesman for the CGIL, one of three main unions.

The unions are angry at Federmeccanica's stance, noting that the continuation of dual level negotiations was enshrined in the new social pact. James Blitz, Rome

#### DANISH PENSION FUND

#### Two charged in forgery case

A senior pension fund director and a property developer are to appear in court in Copenhagen today charged with forgery involving sums of at least DKr2bn (\$305m).

Rasmus Trads, managing director of the property arm of PFA Pension, one of Denmark's largest pension funds with assets of about DK/120bn, has been charged with Kurt Thorsen, a property developer.

Global Money Management, a bi-weekly magazine, said Mr. Trads is alleged to have forged the signature of his boss on bank guarantees used by Mr Thorsen.

Bent Hansen, of the Copenhagen police fraud department, said millions of individuals in Denmark had money invested in PFA. PFA has said that it would not suffer any financial loss as a result of the alleged forgery.

Mr Hansen said he was also investigating the possible involvement of Banco Bilbao de Vizcaya, a Spanish bank: Mr Trads and Mr Thorsen are being held in Copenhagen city jail and could face penalties of up to eight years in prison if convicted. Jane Martinson, London

#### RUSSIA AND OECD

#### Plan to boost technical help

The Organisation for Economic Co-operation and Development plans to boost the amount of technical assistance it provides to Russia. Donald Johnston, the secretary-general of the club of leading industrial nations, said after meeting Yevgeny Primakov, the Russian prime minister, In Moscow yesterday that he would seek support from mem-bers for additional programmes.

The OECD investment in Russie is modest in monetary terms – about FFr30m (€4.5m, \$5m) largely in the form of staff secondments - but one official said new proposals developed in coming months could increase that figure by a significant "muttiple".

The OECD's interest shows a continued commitment by political turmoli and financial crisis. The organisation's own projections suggest there will be a 5 per cent drop in GDP this year and 150 per cent inflation ahead of any new economic plan, Andrew Jack, Moscow

#### ROMANIA

#### Bank default fears eased

Romania's central bank this week eased tears of a possible default when it paid €193m (\$212m) against a 1991 credit from the European Union. The payment constitutes more than half of the \$404.8m in foreign debt service which falls due this month

The news coincided with a central bank announcement that official foreign reserves, excluding gold, increased by \$316.6m in January to \$1.98bn. The increase was due to a payment received from OTE, the Greek telecoms operator, for a 35 per cent stake in RomTelecom, Romania's national telephone monopoly, that it bought for \$875m last

This year Romania faces foreign debt service payment of \$2.9bn.

Analysts believe that default is likely unless the government can reach a fresh standby agreement with the International Monetary Fund, an agreement that hinges on the passage of this years budget and a bank recapitalisation programme. Joe Cook, Bucharest

#### POLISH BLOCKADE LIFTED

#### Farmers begin talks

Polish farmers yesterday suspended a week-old campaign of road blockades after intervention by the church and began talks with the government on extra assis

A team of mediators led by Bishop Roman Andrzejewski, pastor to the farmers, was called in on Monday night to try to resolve a dispute that has disrupted traffic nationwide and led to clashes with police. Farming groups agreed to remove their barricades after the government issued an order that police were no longer to use force to clear pro-

Some 25 major roads were barricaded on Tuesday before the protest was lifted. Officials say talks between government ministers and union leaders will focus on extra help for farmers impoverished by the collapse of food exports to Russia. Reuters, Warsaw

#### LITHUANIA

#### Refinery accuses Lukoil

The Lithuanian government has asked Russia to explain why the supply of crude oil to a strategic refinery dried up over the weekend. Officials in Vilnius suspect they are being put under pressure to sell a stake in the refinery company to the Russian oil company Lukoil.

Russian oil supplies to the Mazeikiu Nafta refinery are co-ordinated by Lukoil, which is trying to buy a 33 per cent stake in the refinery. It has threatened in the past to out off oil supplies unless it is sold a stake. Negotiations to renew existing supply contracts failed last week.

The Lithuanian government said last Friday relations between the two countries would be damaged if Lukoil or Russian government institutions were intentionally withholding the oil.

Williams International of the US said on Monday it stood by its decision to pay \$150m for a 33 per cent stake in Mazeikiu Nafta. Lithuania has in the past said that Lukoil is welcome to submit a bid in an open tender for a part of the 59 per cent stake still owned by the government. Matej Vipotnik, Riga

# Schröder steps into dispute

By Tony Barber in Frankfurt

wage

Chancellor Gerhard Schröder urged German metal industry employers yesterday to make a sensible wage offer to trade unions and said the nation's economic well-being required an end to its growing labour

Making his first intervention in a conflict that has seen thousands of industrial workers hold short strikes and demonstrations. Mr Schröder said on German television: "What is being negotiated now will affect the future far beyond this year. I have confidence in the parties' economic rea-

However, speaking later in a separate television interview, he appeared to lean to the unions' side, commenting that metalworkers had been obliged for some time to accept a fall in real wages. "If there is real growth (for business], then the other side must profit from it as

well," he said. The conflict, which broke out in earnest last Friday, centres on the demand of Germany's largest trade union, IG Metall, for a 6.5 for its 3.4m members. The employers' association. Gesamimetall, has refused to offer more than 2 per cent, plus up to 0.5 per cent in one-off benefits.

A prolonged conflict could undermine the centre-left government's efforts to reduce chronically high unemployment of more than

It may also cause the European Central Bank. which is responsible for setting monetary policy in the 11-nation euro-zone, to delay cutting interest rates. The ECB says it wants clear evidence of wage restraint in the euro-zone before it reduces its main refinancing

The small, scattered strikes continued yesterday as about 10,000 workers from 40 companies staged brief walkouts in the state of North Rhine-Westphalia. About 7,000 workers followed suit in Bavaria.

IG Metall's deputy leader Jürgen Peters, said the employers were to blame because workers' pay had fallen by 7 per cent in real terms in the past five years, whereas corporate profits had risen by 200 per cent.

But the managing director of the employers' association, Thomas Vayna, said the offer of 2 to 2.5 per cent was generous since inflation was close to zero in Ger-

FENANCIAL TIMES FINANCIAL TIMES
Published by The Financial Times (Europe)
GmbH. Nibelumeerspiatz 3. 60318 Frankfort am Mann. Germany. Telephone +++9
60 150 850. Frax ++-9 6-596 4481. Represented in Frankliert by Cohn A. Kennard
as Geschäftsführer and in London by
David CM. Bell, Churman, and Alan C.
Miller, Depany Chairman. The skurcholder
of the Financial Times (Europe) GmbH in
Pearson Overseas Holdings Limited, 3 Buringten Gurdens. London, WIX ILE.
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GFB34635;

Responsible for Advertung content: Colin A. Kemard Primer: Hürriyet International Verlagsgesellschaft mbH. Admiral-Roten-dahl-Strasse is, 65263 Neu Isenburg ISSN 8174-7363. Responsible Editor: Richard Limbert, clo The Financial Times Limited, Number One Southwark Bridge, London 651-6841. Number SEL 9HL. FRANCE

PRANCES
Publishing Director: P Maraviglia, 42 Rue
La Boette, 75035 PARIS, Telephone (01)
5376 \$254. Fax (01) 5376 \$253. Printer:
S 4 Nord Eclar, 15721 Rue de Catre,
F-99108 Roubaix Cedes, I. Editor, Rachard
Lambert, ISSN 1148-2753. Communion
Paritage No 67808D. SWEDEN

Responsible Publisher: Bradley P Johnson. Telephone +46 & 791 2345 Printer: AB Kvallstidanges Expressen, PO Box 6007, S-530 06. Jonköpung. C. The Franceal Times Limited 1999.

Eduor Richard Lumbert, clo The Futureit Times Lumited, Number One Southwark Bridge, London SEI WIL.

#### Brussels says aid does help regions for spending on structural funds between 2000 and 2006 By Michael Smith in Brussels currency participants would Patent applications grew 12 countries, rose 10 percentage find it difficult to maintain per cent in the EU as a The European Commission points to 75 per cent and will spending on infrastructure. in the existing EU countries

warned yesterday of the dangers of the European Union cutting regional aid, after publishing "indisputable" evidence that the funds narrow the gap between rich

and poor areas. A Commission analysis showed that in the decade to 1996, gross domestic product per head in the Union's 10 poorest regions increased from 41 per cent of the EU average to 50 per cent. GDP per head in Spain,

Abel Matutes, Spanish for

eign minister, made clear

the agreement, since the

Spanish government did not

recognise the Gibraltar

authorities and dealt only

with the UK government.

But he said it would not

oppose the deal if it enabled

fishermen to resume activ-

ity.
"If Señor Matutes sticks

his oar in and undermines it,

he and only he will bear

responsibility for the ensu-

ing situation," Mr Caruana

He attacked the Madrid

government's "bullying tac-

tics" and dismissed Spanish

moves in Brussels to take

the UK to task over the enforcement of European

Union directives in Gibraltar

as "political propaganda".

Inside

the market

o one is predicting

another British Air-ways-American Air-

lines-style bust-up. But there

is still plenty of room for

friction between the Euro-

pean Commission and the

British government when it

comes to investigating Brit-

ish Aerospace's £7bn

(\$11.5bn) purchase of GEC's

The potential for conflict

lurks in the question of who

investigates which bits of

the merger. In theory, the UK will look at the defence

parts and the Commission at

the civilian. That leaves an

in-between swathe of "dual-

use" goods to which both

sides will want to lay claim.

Commission officials and

government lawyers have

been holed up in Brussels

office blocks attempting to

thrash out the boundaries.

While Karel Van Miert,

competition commissioner,

recognises the sensitivity of

the case, he is determined

not to be pushed to the side-

lines on this or any of the

other big defence mergers

Over the past few weeks,

Marconi defence division.

warned in an interview.

reach 77 per cent this year.

countries move into the final stages of negotiation for the Commission's "Agenda 2000" proposals for reforming EU spending on structural funds, mainly regional aid, and the Common Agricul-

tural Policy. Countries including Germany, France and the UK are pressing for budget "stabilisation". Some argue that the Commission's proposal

is too generous. According to freeze as suggested by the German presidency of the EU would lead to an 18 per cent cut in structural fund spending in 2000.

Monika Wulf-Mathies, regional affairs commissioner, said yesterday that this would be unacceptable.
"Poorer nations would not be able to cater for these reductions," she said. Countries subject to the financial

Which still needed upgrad-The Commission said its analysis showed that the

"unusually rapid" pace of economic convergence in the EU between 1986 and 1996 had been driven largely by closer economic integration, but that up to half of the catch-up of the poorer countries was due to structural

It says the funds have helped poorer regions

whole between 1989 and 1996 but by 46 per cent in Portugal, 82 per cent in Greece, 100 per cent in Spain and 150 per cent in Ireland. However, disparities remain, particularly in

unemployment. Mrs Wulf-Mathies said she would not be prepared to accept a budget settlement that penalised structural funds plans heavily but left agriculture largely untouched. "We do not want to use structural

banks near

Holocaust

Bank Austria and

Creditanstalt, the two larg-

est Austrian banks, yester-

day moved closer to settling

US lawsuits brought against

them by lawyers represent-

ing Holocaust victims, in a

deal which could increase

the pressure on German

banks to settle litigation.

Sources close to the ne

tiations said that Jewish

groups had agreed "in prin-

ciple" a framework to end

their claims against Bank

Austria and Creditanstalt in

return for a sizeable cash

payment, and the opening of

the banks' archives to allow

further investigations into

The banks emphasised

that no final settlement had

been reached or signed, and

said compensation figures

quoted in the Austrian press

were "pure speculation".

Alfonse D'Amato, the for-

mer US senator who was

appointed to act as a special

mediator with the full pow

ers of the court at the end of

last year, announced two

weeks ago that he expected

to reach a settlement after

meeting in London with

Israel Singer, secretary-general of the World Jewish

Congress, and Gerhard

Randa, chief executive of

Bank Austria and chairman

of the supervisory board of

Further intense negotia-

tions chaired by Mr D'Amato

continued between the two

The compensation money

would be paid into an

fund. It is important to the

Jewish représentatives that

the banks make a recogni-

tion of their "moral responsi-

bility" for handling looted

gold and the "Aryanisation"

of Jewish businesses during

The settlement includes

the opening of the Austrian banks' archives to Jewish

groups that are still suing

three German banks - Deut-

sche Bank, Dresdner Bank

and Commerzbank - over

their role in the Holocaust.

-The action against the

German banks, which are

potentially liable for much

greater sums of money, will

continue. The German and

US governments are already

involved in attempting to

negotiate a settlement. Bank Austria and Credi-

tanstalt have made clear

throughout the process that

they wished to settle; and to

do so separately from the

German banks. Jewish

groups now appear to have

accepted the Austrians'

arguments that they were

international humanitarian

teams of lawvers in New

Creditanstalt.

York this week.

the war.

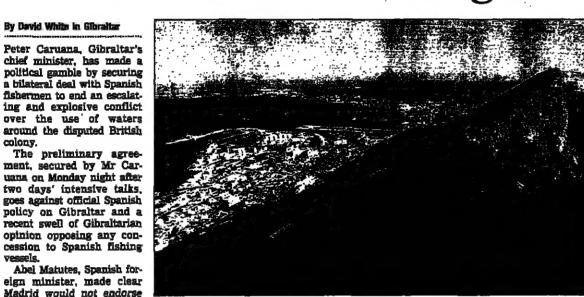
varying from \$42m to \$92m

the German banks

accord

nd Richard Wolffe

Gibraltar secures fishing deal Austrian



Spein ergues the 1713 treety which coded Gibrattar to Britain covered no waters outside the harbour

opponents: "They can protest until they're blue in the

Anti-Spanish feelings were controls, leading to a fourhour wait for cars leaving the colony.

UK-Spanish sovereignty dispute, built up last year with a steep increase in Spanish vessels entering what Gibraltar claims are its waters. Spain argues that the 1713 treaty which ceded the Rock to Britain covered no waters

Defence merger has potential

for conflict on dual-use goods

Plenty of room exists for continuing friction over BAe's purchase

This, until now, was

exactly what happened. To

stop Brussels prying into

defence deals, governments invoked Article 223 of the

European Union's founding

treaty. This says that a

member state does not have

to hand over information if

it believes disclosure would

endanger national security.

kets begin to break down

and companies start reorgan-

will be harder for govern-

ments to play the national

security card to beat off

scrutiny by Brussels. Mr Van Miert already

believes that Article 223 was

applied too loosely in the

past, allowing defence merg-

ers to proceed with insuffi-

cient examination of their

He points out that virtu-

ally all defence margers have

some civilian elements.

These bits, if they meet cer-

tain thresholds, should be

So too, should the so-called

dual use goods. But govern-

ments may not agree. For

example, GEC-Marconi is the

world's leading producer of

the EU merger regulation.

notified to Brussels under. lines

impact on civilian markets.

ising at a European level, it

As national defence mar-

expected to flow from the head-up displays - a kind of

restructuring of Europe's television picture which defence sector. superimposes an aircraft's

of GEC's important Marconi division, writes Emma Tucker

He also defied domestic outside the harbour.

still running high in Gibraltar yesterday because of a tightening of Spanish border

The conflict, against the background of a continuing

Friction peaked this weekend after clashes between

fishermen and Gibraltar police, in which a Spanish boat was temporarily impounded and its 14-man crew put on bail. Spanish demonstrators occupied the single frontier post between Spain and the tiny rock peninsula on Friday night, cutting off the crossing. After the first round of

talks in Gibraltar, the sixman Spanish delegation was

The outline deal, to be made public today after rati-

Royal Air Force-operated air-

fication by both parties, is understood to provide for a return to moderate fishing activity, as practised up to last year. This was tolerated in spite of a 1991 Gibraltar ban on commercial net fish-According to Gibraltar

officials, the fisherman would be committed to respecting the authority of Gibraltar police, and refrain from fishing in the area or blocking the border until the agreement was formally

#### mobbed by angry crowds, and Mr Caruana's car window was smashed in. The second round had to be held secretly in the colony's

control panel onto the glass

in the pilot's line of sight.

These were originally developed for military air-

craft. But last year GEC won

contract from American

Airlines to adapt the tech-

nology for its fleet of Boeing

Will the British govern-

ment try to apply Article 223

to head-up displays? "If you

have a technology which is

98 per cent military but

where 2 per cent has found

its way into the wing flaps of

one particular Airbus, is that

a dual-use good?" asks one

Brussels-based competition

o far, everyone on both

Ogrown up. There has

been no public slanging

match as there was when

British Airways, backed by

the British government, told

Mr Van Miert that he had no

claim over its proposed

But in that case, it was

genuinely unclear who had

legal jurisdiction. British

Airways was also backed by

link-up with American Air-

sides is being very

ment, it should bear in mind that the Commission is no longer content to take a back seat in an area now so decidedly Ruronean. As one Commission official says: "It: is only normal that we will look again at what we have

Brussels - not a path likely to be pursued by the present administration.

over competition iss

All this means that the BAe GEC marriage is going to be something of a test. case. Others are not far behind. France will have some negotiating to do over its plans to merge Matra, Aerospatiala and Dassault

But even if the two sides agree on which bits of the merger go to Brussels and which stay at home, other people could make life diffi-

The proposals to form a huge UK weapons maker came as a disappointment to other European companies (particularly in France and Germany) which had been working with BAe and GEC on cross-border mergers. It is no secret that political considerations always hover French and German disgruntlement may up the ante in

There may also be a battle inside the Commission between competition purists and those who think the need for consolidation in the European defence sector. rather than worries over the creation of dominance. should be the first consideration in assessing the

Like the British govern

taken over and controlled by the German hanks after the annexation of Austria. The World Jewish Congress declined to comment on the deal.

# a government hell-bent on whipping up a battle with

مكذا من الاجل

El line on Russia un

olen halitle for Kuro

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## NEWS DIGENT

#### H INCUSTRIAL ACTION

#### alworkers to strike r wage bargaining

Ann makemulates profession and and a second white the father princes and the states the the oil march given by agreem a constraint of the

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Principalities in Helicity of Part House and tel in collect many in a THE SAME OF HOUSE PART STORY mine the make at I shirt have a line Print Capital Constitution of James Services and by the come secret that " James Bitts Rame

#### IN PENSION FUND

#### charged in forgery case

Introduction desired for Congressionappers to discuss the control of the Congression to discuss the control of with a second control of the factor of the f Present Comments of Empirical Comments of n, a property developer M Million Maringment at the same . ... 56 to alleged to but of the state of the sta Materials, of the Capacitages po Mark problement and warden strain on the commen of the PEA PEA frank world that him ... 野海海 横 自 神色器 河 ガヤ は かけんしゃ termine many has been about the second of the element of Marriers Thillians; they don't have a series of the tach and Me Thirteen part because in and could face permitter in . If convenient dans Martineurs, Lancius

#### MA AND DECU

#### **to boost technical** help

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the best the property of the conge fig Marine Direction and are the congiven the chair of markets in his above The Toronto Property of the Same of the in paterting that he wanted the warms of the control of the contro DECD measurement in Number of the Committee of the Commit CHARLES OF CHARLES OF CHARLES OF CO. ME OF COUNTY PARTY.

#### mult fears eased

Mark & Street Manday No. 70 To Tall mining Fund or all se-

#### DETED LETED

#### nocuses Lukoil

# An uneven battle for Kurdish hearts and minds

The Turkish authorities appear to be refusing to make a distinction between 'terrorists' and Kurdish representatives ready to find a political solution, writes Leyla Boulton

bile the exiled Kurdish guerrilla leader
trum of Kurdish representafeelings.

Abdullah Ocalan contives who could help find a

That these two parties; p try that will accept him, Kurds within Turkey are beginning to feel under more pressure than ever.

The Turkish authorities, having vowed to track down Mr Ocalan and proclaim the end of the "world's bloodiest terrorist organisation", is at the same time trying to han the party many Kurds are expected to vote for in elections in April.

The country's chief prosecutor on Friday accused the non-violent pro-Kurdish People's Democracy party (Hadep) of being "organi-cally linked" to Mr Ocalan's Kurdistan Workers party, or PKK, which has waged a 15-year guerrilla war in which 29,000 people have died.

The constitutional court will today decide whether to accept the prosecutor's application for proceedings to begin against Haden, which rejects the charges.

The prosecutor's action was nevertheless interpreted by some analysts as another sign of the Turkish government's refusal to make any is able to draw on both the links with the distinction between PKK Eurds' sense of alienation are all PKK."

By Raiph Atkins in Som

The European Union had to

adopt a strategy towards

democratic and institutional

reform in Russia reflecting

the EU's increased economic

importance after launch of

the euro, Joschka Fischer,

Germany's foreign minister,

Speaking after a meeting

in Bonn with Igor Ivanov,

Russia's foreign minister, Mr

Fischer said that the "main

point" of a fresh EU strategy

towards Moscow would be

"the development of

long-term, lasting struc-

It was of "decisive impor-

tance" that the EU co-ordinated and combined afforts

by member states to ensure

said yesterday.

tinues his search for a coun-political route to addressing which in 1935 between them

Kurdish grievances. Tur- won 64 per cent of the vote key's minority Kurd popula- in the south east, are expection wants so-called cultural ted to top the polls again is Diyarbakir, Sitki Zilan, Virrights, such as Kurdish-lan- the clearest sign that the guage television, limited mainstream political parties self-rule and more jobs in have long lost the battle for the south east, where they the hearts and minds of are in a majority and which most Kurds.

Separately, the Russian foreign ministry denied reports in the Turkish press

that Mr Ocalan had recently

spent two weeks stranded at

The Greek government repeated denials that Mr

"Of course we will vote for

Ocalan was on its territory.

and the US over Kosovo

playing a "constructive role"

Mr Fischer said the EU

would have an increasing

role in helping develop dem

ocratic structures in Russia,

as well as helping with

in areas such as the develop-

Although it was not an

immediate theme, he expec-

ted an evolving "political

RIT's plane for a joint strat-

He promised that Moscow

ment of legal systems.

EU and Russia.

political signal".

in a crisis situation.

a Russian military airfield.

#### Kurdish leader stays elusive

Bülent Ecevit, Turkey's prime minister, met the head of Turkey's intelligence service yesterday to discuss the whereabouts of Abdullah Ocelan, the wanted Kurdish guerrilla leader, local television said, Reuters reports from Ankara.

If, as expected, the slowmoving judiciary falls to outlaw Hadep before the April 18 poll, the south east will provide the stage for an electoral contest with the other

New EU line on Russia urged

Mr Fischer's comments

came as Chancellor Gerhard

Schröder prepares for the

planned EU-Russia summit

in Moscow on February

This summit is expected to

help shape a revised EU

strategy. Germany holds the

for the first six months of

try is seeking to switch dis-

cussion over Russia away

from talk about financial

aid towards developing a

long-term relationship with

the EU across a range of for-

eign and economic policy

Mr Fischer yesterday cited

as an example the co-opera-

Germany's foreign minis-

this year.

Russia's economic and finan-tion between the EU, Russia

an Union presidency

cial stability, he added.

is one of Turkey's poorest

Hadep," said one of thousands of refugees who moved to the stums of Diyarbakir, the higgest city in the south east, after their villages were destroyed by the army in a campaign to finsh out the PKK. "We don't group the Turkish establishthink there's a link between ment loves to hate - the Islamist party Virtue, which the two but if they have links with the PKK, then we

The irony is that neither party plans to spell out its policies for tackling Kurdish grievances before the elec-

In a cold unlit office in tue's local deputy party chief, says that "the party could be closed down just because of one sentence' that might be misconstrued as "separatist" by the authorities. Disregarding the

new-found moderation of Virtue leaders in Ankara, who are trying to persuade a suspicious military they are fit to govern, he describes the army as "the biggest obstacle to democracy" in Turkey. Two years ago the armed forces removed from office a coalition led by Virtue's predecessor party, Welfare. Its response to the Kurdish question has been to wage a military campaign, costing the state \$7bn a year.

In an attempt precisely to avoid the sort of legal action launched against it last week, Hadep had always nlanned to avoid mention of the Kurds during the election campaign. "Our campaign slogans will be democracy, peace, and human rights," says Osman Ozcelik, a federation."



Hadep's deputy chairman in Ankara, complaining that "every time we say one word {about Kurds} a new court case is opened against us".

sentatives of mainstream parties have little to lose by demanding more construc-tive policies from Ankara. sut Deger, local chief of the centre-left Republican People's party (CHP) argues that a failure to respond to moderate demands such as the right of Kurds to some official use of their own language will only encourage more extreme demands in future. "If they don't recognise Kurds' identity today, in five years' time people will ask for independence or



ues, "public opinion" at By contrast, local reprelarge will not agree to extend even cultural rights to Kurds.

> people can now walk the streets of Diyarbakir at night without fear of attack suggests the armed forces have gained ground in their battle against the PKK guer-

But signs of an economic revival vaunted by officials are more difficult to detect. Turkey's grandiose \$32bn South East Anatolia project to generate electricity and irrigation by damming the Tigris and Euphrates rivers

Bülent Ecevit, the care- has so far failed to bring vistaker prime minister, ible benefits to the areas responds by saying that as with the heaviest Kurdish long as "terrorism" contin-

tile plant, which employs 2,000 people and is the most frequently cited example of Meanwhile, the fact that new investment in Diyar-people can now walk the bakir, Adalet Siyahli, a 23year-old worker, is grateful to have a job and says the biggest luxury in her life is being "able to live like a normal person".

But as one local business man puts it, PKK propaganda that "this is our land and our resources and the Turks are exploiting everything" will continue to resonate among ordinary people unless economic opportunity becomes more widespread.

it could be enlarged to accommodate up to 26 meman audience of financiers However, at the Akyil texand institutional investors in London. "We feel that prolonging the process or delay-

Finland

outlines

strategy

By Tim Burt in Stockholm

Finland will use its

presidency of the European

Union later this year to

emphasise institutional

reform and eastern enlarge-

ment of the EU. Paavo Lip-

ponen, the country's prime

"The Union must get its

own house in order." before

ing the reforms will not ben-

minister, said yesterday.

its EU

efit anyone." Before it assumed the presidency in July, he emphasised that Finland would support the German government - the current EU president - in its attempt to work out a financial framework for 2000-2006, as well as reform of the Common Agricultural Policy and structural funds.

Mr Lipponen, who faces a general election in Finland next month, said it was important to begin preparations later this year for an inter-governmental conference (IGC) on institutional

Although Finland will not publish its formal priorities for its presidency until June. Mr Lipponen outlined a three-strand agenda for such a summit on EU reform. It should, he said, address composition of the Commission, re-weighting of votes in the council of ministers and the extension of qualified majority voting. only by those holding public

Mr Lipponen described enlargement as the main challenge to the Union in the coming years, noting that none of the candidate countries were yet ready to meet the criteria for EU member

The Finnish prime minister said the country supported an enhanced common foreign and security policy, with the adoption of common EU strategies in international relations.

#### CONSERVATIVE CONTROL SOCIALIST GOVERNMENT'S CONSTITUTIONAL CHANGES HELD UP

# French Senate blocks reform

#### which had led to the United Nations Security Council

Important pieces of the French government's legislative programme are being held up by the Senate, the second chamber of parliabuilding infrastructure, and ment controlled by the centre-right.

The battle with the conservative Senate has increased the momentum for plans by the Socialist prime minister, Lionel Jospin, to reform the upper chamber and introrelationship" between the Mr Ivanov described the duce a new system of elections. At present the Senate egy on Russia as a "strong is elected exclusively by les orands electeurs - people already holding public would help drive forward the

elected office.

Jospin has been the Senate's complete rewriting of a law enshrining equal opportunity for men and women in the constitution. This had already been approved by both a large majority in the National Assembly and had the backing of President Jacoues Chirac.

Rightwing senators, plus some from the left, argued there was no need to rewrite the constitution to ensure equal opportunity since such a right implicitly existed. But behind this argument lay a broader strategy to embarrass the government. Any change in the consti-

tution requires a two-thirds majority of both houses sit-

Senate has the power to block the equal opportunity plan. The idea of promoting women to a greater role both in the workplace and especially in public life was one of Mr Jospin's electoral pledges in 1997. Moves to challenge the

ting jointly. As a result the

dum were vetoed this week by President Chirac, who argued the two houses should hammer out a deal. Other reforms held up by the Senate include a new voting system for the European elections and a curb on the practice of holding more than one elected office - the

Senate by holding a referensmall towns. Mr Jospin's aim is to create a more vital and representative second chamber but to do this he would have to change the constitution or persuade the rightwing President Chirac to hold a referendum. As co-habitation becomes more confrontational neither outcomes is

322-strong Senate is natu-

rally conservative. Members

are elected for an unusually

long nine years with elec-

tions staggered every three

years. Since they are elected

office, the bulk of their votes

come from councilors of

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#### antibiotics. The scientists at our pharmaceutical company Hoechst Marion Roussel develop new medicines and alter the structures of existing ones to set up effective agents against pathogens. So disease-causing bacteria will not have anything to laugh about in the future.

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Imagine laughter being the only thing that's contagious



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# Brazil picks hedge-fund poacher as economic gamekeeper

The nomination as central bank chief of a former fund manager is drawing fire. write Geoff Dyer and Richard Waters

ew poachers have gone today's global capital maron to tend the game at ouite such large estates

Only last week Mr Fraga Soros Fund Management, the company that runs the investment funds of George Soros, the billionaire invesfund that took bets on macroeconomic changes, such as currency devaluations, in

Mr Soros's company won fame in 1992 when its heavy selling of sterling was held partly responsible for the currency's devaluation. Mr Soros has also been personally blamed for some of the a floating rate. currency crises in Asia over the last two years.

Although Mr Soros is himself a critic of unfettered capital flows, his investment the most striking symbols of with a vengeance.

Under new management, the

House of Representatives

106th Congress yesterday.

officially swapping the era of

Newt Gingrich for the

steadier approach of Dennis

Hastert, the Illinois Republi-

can who is more father fig-

Signalling that the legisla-

tive agenda will be more rou-

tine than radical, House

Republicans placed at the

top of their list such items as

a reauthorisation of the Fed-

eral Aviation Administration

and a renewal of a pro-

gramme to insure commer-

cial aircraft fiving military

notion that they can

impeach a president but

have trouble conducting the

are anxious to dispel the salvation.

troops into war zones.

ure than revolutionary.

ened the business of the

Now Mr Fraga has been nominated the new president of the Brazilian central bank, the third since the start of the year, at a time when the world's minth largest economy is suffering just such a financial crisis.

be approved by the Senate. After four speculative attacks in the space of 18 months, the government was float on January 15. Having had some form of fixed exchange rate for the last 47 years, the central bank is still learning how to operate

Mr Fraga has been brought in with the aim of neutralising new speculative pressures, stemming the currency's plunge and preventfunds have become one of ing inflation from returning He had been with Soros

Richard Geohardt, leader of

the Democrats in the House

announce today he will not

contest the nomination for

reports from Washington

House colleagues he has

concentrate on next year's

ing. But they are also detar-

mined to show they can leg-

islate at the same time as

foreing shead with an ambi-

tious tax-cutting agenda that

Other policy objectives

this year are to improve edu-

cation and shore up the twin

decided instead to

roops into war zones.

Partly, House Republicans many in the party see as their political and legislative

ordinary business of govern- federal entitlements of Social

Mr Geohardt will tell his

next year's presidential

election, Gerard Baker

New speaker ushers in a steadier approach

He also has the academic

pedigree which allows him

to rub shoulders with Bra-

zil's high-powered economic

in economics from Princeton

in the US, he has taught at

the Catholic University in

Rio de Janiero, whose for-

mer professors include Pedro

Malan, finance minister, and

Mr Fraga's two predecessors

vice-oresident and favourite.

Only Bill Bradley, the former

senator, has indicated he

may challenge Mr Gore.

The Republicans are

expected to have a wide

led by current favourite,

George W Bush, Texas

governor, and possibly

Tizabeth Dole, wife of

Robert Dole, their 1996

field of potential candidates,

Repeatedly, House Repub-

licans have crafted compli-

cated, far-reaching proposals

including child-tax credits.

changes to capital gains

taxes and alternative mini-

mum taxes only to see the

Last year, House Republi-

cans were furious after Sen-

ate Republicans, led by Pete

Domenici, the influential

Senate alter or kill them.

team. Having received a PhD

1998 (after the sterling crisis) and managed the \$1.4bn Quantum Emerging Growth Fund, which suffered the brunt of the hedge fund group's \$2bn losses after the collapse of the Russian rou-

However, he is no stranger to Brazilian government circles, having been the central bank's director of interna-

**Gephardt to rule out entering race for White House** 

the House which the

Democrats lost in 1994.

been expected after Mr

to surprise gains in last

year's House elections.

hoping to regain control of

The decision, which had

Gephardt led the Democrats

means the likely field for the

significantly strengthens the

Security and Medicare

The tax cut issue, while it

holds enormous political

appeal for the party, has

never been an easy one for

Republicans. Ever since

Newt Gingrich labelled it the

Contract With America, cut-

ting taxes has tended to

divide Republicans more

than unite them.

crown jewel" of the 1994

party's nomination race is

prospects of Al Gore, the .

surprisingly narrow and

Lloyds Bank in São Paulo. But with the political tem-

perature in Brasilia already at boiling point, Mr Fraga will be stepping into a mine field when he goes before a on February 22, after the carnival break. For many on the Brazilian left, Mr Soros, his former employer, has come to symbolise the es of global capitalism that they despise. For the last four years his

ofits of a mega-fund. Is he the right person to judge how to preserve the stability of the currency?" asked Eduardo Suplicy, a senator for the Workers Party (PT). However, the hostility towards short-term profiteer ing is not limited to the political left. Only on Monday, Antonio Carlos Magalhäes, rightwing head of the

Senate and a close ally of

large House tax cut because

it would have relied on fed-

eral budget surpluses that

This year, in a significant

change of heart, Mr Domen-

ici has signalled that he is in

favour of a deep, across-the-

board tax cut, rising in

stages from about 4 per cent

John Rasich, Mr Domeni-

ci's counterpart in the

House, has long been an

enthusiastic proponent of

lashing deficits and cutting

taxes, and he has emerged as

one of the leading Republi-

cans favouring a straight 10

per cent cut in income taxes.

cut issue is about more than

boosting the party's image

after the debilitating

impeachment debacle. It is

also a way to improve the

business community, where

to an eventual 15 per cent.

had yet to appear.

get Committee, resisted a with the party's focus on

For Republicans, the tax ers, in support of the 10 per

party's standing with the ultimate legislation - is

cent tax cut.

presidential scandal

Business lobbvists and

associations have been vig-

orously urging Republicans

to get back on the legislative

and policy track. And they

strongly support the idea of

a 10 per cent cut in income

tax rates. Several have mounted big publicity cam-

paigns directed at Republi-

affordable, it's non-partisan

and reasonable and it will

promote economic growth,"

declared Calvin Campbell,

the chairman of the National Association of Manufactur-

Most Republicans would

How they get Mr Clinton to

agree - and not to veto their

agree with that asse

job has been to maximise the

Lopes and Gustavo Franco. rique Cardoso, lashed out as "He is someone who "speculators". He described knows the markets, but is them as "greedy economic also well known both here agents... who are acting in and abroad," said Odair an irresponsible and crimi-Mr Magalhães was more

diplomatic about Mr Fraga's aupointment vesterday. "He actions of these criminals and can put an end to it," he said, predicting that the Senate would comfortably approve the appointment.

Mr Fraga will also have quickly to put distance etween his views and those of Mr Soros, who has been witheringly critical of the Brazilian government and the MF. Holding forth at the World Economic Forum in Davos on Monday, Mr Soros said the policy of raising interest rates to defend the currency, agreed with the IMF, had been "disastrous".

Mr Fraga, who arrived in Brasilia from New York yesterday morning, was expec ted to join meetings with Stanley Fischer, deputy managing director of the

# Chávez takes office with call for unity

Hugo Chavez, the former coup leader, yesterday took office as Venezuela's president with a call for national unity and insisting he would push shead with a new economic and political model. He announced the immedi-

ate signing of a decree calling for a referendum on a to rewrite the constitution and overhaul a political and economic system dependent on all and widely seen as corrupt and efficient. He preempted Congress with the decree, which was considering calling a referendum on its own terms.

Mr Chavez also asked Congress to give him executive powers to implement emerhelp halve the budget deficit of 9 per cent of gross domestic product within six months. Such measures are to include an emergency financial transaction tax and a value-added tax.

"It is urgent to solve the budget deficit and therefore we need a profound fiscal

Mr Chavez said it would require a superhuman effort by all Venezuelans to increase the standard of living and develop a new eco-nomic model. "I call on all Venezuelans to pay their taxes. Those that don't will go to prison."

ing agricultural instruments ding for the fields."

The new president also

announced the formation of a special military brigade made up of engineers and professionals to promote ecopoverty and assist in healthcare. "Instead of a military parade with tanks there will be a parade of soldiers carry-

the economy, he announced four flagship agricultural pelm cultivation.

In an emotionally charged speech, laced with patriotic and divine symbolism, Mr Chavez gave a bleak account of Venezuela's moral, economic and social crisis heart. It is as if I inherited a



offering to disarm it." Mr Chavez came to power in a landslide victory last December with a mandate to overhaul a political system widely seen as corrupt and clientalist. Yesterday's ceremony, attended by heads of state from Latin America, the Caribbean, Spain and Arab Opec member countries, marks the height of a dramatic turnround since Mr Châvez led a failed coup sitempi seven years 2go.

Governor brings charm offensive to Mexico

#### can members of Congress to get moving on the tax cut.

Canada acts to restore faith in mining stocks

Brazilian policymakers look to Mexican solution

http://www.ft.com/americas

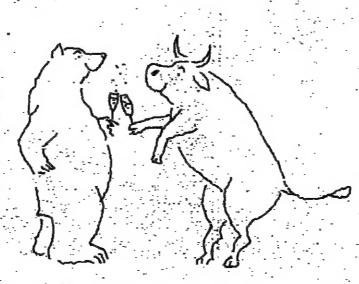
ERE IT IS - THE NEW NAME FOR TWO STRONG PARTNERS.

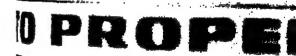
Together, with our common strengths, we'll be able to reach

THE HIGHEST GOALS. WATCH OUT DAX, HERE COMES

# Degussa-Hüls

Specialty chemicals now have a new spelling: Degussa-Hüls AG. The company will have 46,000 employees and will start with sales of more than DM 20 billion. Degussa-Hüls an attractive new international company with high growth potential based on the combined strengths of two established firms. Degussa-Hüls - the latest word for more expertise, more commitment, more innovation.





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Germany's finance ministry indicated yesterday it may

#### ISRAELI BUDGET

#### Netanyahu makes concessions

Israel's parliamentary finance committee finally approved the 1999 budget yesterday, but only after the govern-ment's coalition pertners extracted concessions from Benjamin Netanyahu, prime minister and finance minister. The Shk215bn (\$52.7bn) state budget was accepted after plans to reform social welfare payments were abandoned and nationalist parties lobbled on behalf of Jewish settlers. Nationalists linked support for the budget to the government legalising the settlers' pirate radio station. The ultra-Orthodox religious parties demanded more financial assistance and 500 new apartments for full-time students at religious schools, And Yisrael B'Aliya, the Russian party, demanded 5,000 new apartments for new immigrants. Some economists said the demands would cost up to Shkibn. Judy Dempsey, Jerusalem

'THREAT TO GULF SHIPPING'

#### Iraqi missile site bombed

US warplanes yesterday bombed and apparently destroyed a newly established anti-ship missile site in southern traq that could have threatened shipping in the oil-rich Gulf, the Pentagon seid. Officials said four jets from the aircraft carrier Carl Vinson in the Gulf attacked the Russian-made CSSC-3 missile battery. The missiles, with a range of about 60 miles (100km), had been moved within the past week to the coast south-east of Basra and could have threatened US warships or commercial ship-

#### INTERNATIONAL

# ávez takes ice with I for unity

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# Algerian press attacks leading candidate

election campaign began in president already elected. earnest this week when Abdelaziz Bouteflika, the former foreign minister believed to be backed by the army, officially announced his candidacy.

in his first public appearance since the election was spoke of the need for dialogue and promised Algeria's alienated youth a better future. But Algeria's privately owned press showed him no mercy.

One newspaper empharanks about the regime's scene, Mr Bouteflika came the party's national bureau sized yesterday that he willingness to hold a fair back last month as the offi-Algeria's presidential seemed to be acting like "a rigidly reading from a prepared script and taking no questions from journalists. cancelled an election to pre-Another daily complained his speech was full of generalities and his solemn style

reminiscent of the 1970s. Controversy over Mr Bouannounced, Mr Bouteflika teflika's candidacy - he is one of dozens running - has dominated preparations for the April elections. That he is seen as the army's preferred candidate has raised concern among opposition from Algeria's political

poll and fuelled suspicions that the authorities were stage-managing the election. Seven years after the army

vent a victory by the now banned Islamic Salvation Front (FIS), and after more than 65,000 deaths, a fair election as promised by outgoing President Liamine Zeroual is considered by the opposition as needed to begin national reconcilia-

After a 20-year absence

cial nominee for president of a minority wants to put up the National Liberation its own candidate and has Front (FLN), the former rul- loudly complained about ing party.

When Al Nahda, a small Islamist party whose leadership is now pro-government, decided to follow the FLN lead and back Mr Bouteflika, against him.

Mr Bouteflika's candidacy has also torn apart the National Democratic Rally (RND), the main pro-government party. While most of

pressure from the top.

have been stepping up pressure on the regime for an open election. But analysis say that divisions, especially one of its leaders quit to at the RND, suggest a lack of form his own party and run a strong consensus on the Bouteflika candidacy even within the regime. Mr Zeroual, a former army general, called the elections last Sep-

Candidates and the press

tember after, it is believed, a Ahmed Talib Ibrahimi, a for clash with army commandmer foreign minister.

consensus has yet to be established in the regime as well as the need to broaden the debate over Algeria's future are leading several sceptics to join the race. Hocine Ait Ahmed, leader of the Socialist Forces Front

The perception that a firm

(FFS), the authorities' flercest secular opponent, may well contest the election. Two other leading government critics are taking part: Mouloud Hamrouche, a former prime minister, and

# Iranians put faith in dollars as clerical economy falls victim to high inflation

Robin Allen on the collapse in confidence cent of Iran's gross domestic in the rial as the government again resorts to a budget funded by printing money

Wancient people long ernments to cover the deficit in the state industries budnomic fantasies of their rulers, Iranians reacted to the 1999-2000 "austerity" budget passed by the majlis (parliament) at the weekend by trooping to unauthorised dealers to cash in devalued rials for US dollars.

According to Tehran economists, the rial, which has fallen 75 per cent. to IRR.350 year ago, and by more than 100 times since the Islamic revolution, 20 years ago this week, is in danger of going through the 10,000 to the dollar mark.

Despite owning nearly 10 per cent of proven global off reserves and nearly one-fifth of gas reserves, Iran last year defaulted on repayment of interest and principal on its short-term debt to Italy, Germany and Japan.

reported to be continuing.

ith all the savvy of an stiempts by successive govget, which comprises 60 per cent of the total, by the simple expedient of printing

Next year's budget is no exception. Revenues and expenditures are "balanced" at IR276,000bn, the equivalent, depending on which "official" exchange rate is used, of \$157.8bm (at IR1,750 from 4,750 to the dollar a to the dollar), or \$92bn (at IR3,000), or \$48.5bn (at IR5,700).

Of the total rial budget, 40 per cent or IR110,000bn forms the conventional government ministries' budget; and IR166,000bn the state industries' budget. In local currency terms the total budget is almost 20 per cent greater than last year's. State industries, according

to economists and bankers, which include nationalised Last month it reached companies and such entities agreement with Italy to res- as Iran's Revolutionary chedule \$419m - 85 per cent Guards Corps (IRGC), reliof its debt - for a further gious foundations, and the two years to 2002. Talks with notorious bonyad - state Germany and Japan are foundations which used to belong to the Shah's family Economists attribute the and which were nationalised colleges of public confidence after the 1979 revolution in the rial largely to are responsible for 85 per address the problem of finan- export licences and fees.

Only a few non-oil manufacturing companies and private or family-owned trading and agricultural companies are free from state control. In recent months, the government has moved to force the bonyad to withdraw from banking and education. and is compiling an inventory of the sprawling assets held by these notoriously

secretive foundations. Taken together, these moves are seen as the pre-

The entire banking system is at the service of the clerical state'

lude to privatisation. Many state industries, such as the bonyad and the IRGC which come under the direct control of Ayatollah Ali Khamenei, Iran's spiritual leader, rather than the president, have hitherto been exempt from tax. President Mohammad Khatemi is most nationalised companies lose money, and so pay no

tax anyway.

se, according to economist Akhar Karbassian. "they are financed by the central bank, whose 'loans' are officially considered to be 'revenue', synonymous with the wealth that is created by productive goods and services in more orthodox countries."

In Iran, "these 'loans'," he considered debt."

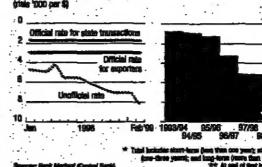
As a result of printing money to finance state industries, inflation is back up to 40 per cent, supplies of cash, demand and long-term to only IR36,000bn, one-third deposits of more than one of the ministries' budget. year (M1 and M2), have soared to TR150,000bn, more than half of Iran's entire gross domestic product and 64 times the levels at the time of the 1979 revolution.

lyst, "the entire banking system is at the service of the clerical state, as it was to the party in the Soviet Union." sources of revenue to cover

"The way the economy is

structured," said one ana-

annual budget expenditure are export sales of oil, gas trying to change this. But and petrochemicals, which historically comprise 75 per cent of state earnings, plus taxation where it can be col-Majlis debates do not lected, import duties, and



Oil revenues are forecast explained, "are called at \$12.1bn, of which \$10.6bn resources available to the is to be from export sales of government' and are not crude oil, and \$1.5bn from gas and petrochemicals.

But economists point out that at the average official rate of IR3,000, revenues from oil and gas would come

Even these revenue estimaies were disputed by MPs, because they are based on oil exports of 2.8m b/d at an average price per barrel of \$11.80, a figure many deputies considered too optimistic. Iran's oil sells at \$2 a barrel less than North Sea Brent, which last week traded at \$10.61.

Total oil production is put The only guaranteed at 3.55m b/d, with 1m b/d equivalent being set aside for domestic consumption of oil products. Many products such as kerosene have to be imported.

According to Mr Khatami, oil and gas revenues were to make up less than 23 per cent of total government rev-

as much again as last year, was to come from improved tex-gathering procedures, in terminal decline, say many analysis, since reforms made by Shah Abbas in the 17th century; and 46 per cent from unspecified "miscella-

neous" sources. Subsidies on some basic food commodities have been increased by more than 20 per cent, while others, on petrol, karosene and diesel fuel, are being cut by 66-75

enues. Thirty per cent, half

None of these short-term budgetary measures, economists said, addresses the fault-line running through the country's economy: the progressive debasement of

the currency. The threat of economic chaos, they added, is precisely what conservative opponents of President Khatami are waiting to exploit; by accusing him of economic ineptitude to discredit his reformist ideals in this

month's local elections.

ping. Reuters, Washington

INTERNATIONAL AID ORGANISATION

#### Red Cross chief stepping down

George Weber, 52, secretary general of the International Federation of Red Cross and Red Crescent Societies, is stepping down after six years in the post. Mr Weber, a Canadian, who will leave later this year after a successor had been appointed, was quitting for "personal and professional reasons", the international aid organisation said. William Hall, Zurich

# ROPEL THE GREAT JOURNEY



and Photographed by Fisherd Avedor

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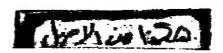
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What's the work



#### Construction Wrap-Up coverage

NE witness said it sounded like a bomb exploding. Then came the chaos. The fire trucks. People running. Workers injured. But that's where the story begins, not ends. Because the repercussions for you are enormous: the replanning, rescheduling, the millions of dollars worth of materials and labor, not to mention the lost time injury.

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This is the real world companies live in. Complex, intricate, often overwhelming. When things go wrong, they go wrong on a large scale. And if your company is not properly covered, the world becomes an ugly place.

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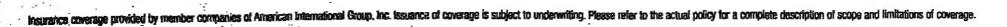
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AIC



At the end of the last leg of a visit by Mr Talbott to India and Pakistan, officials said he appeared to have made progress in convincing both countries to agree an early signing of the Comprehensive Test Ban Treaty (CTBT) by its cut-off date

"We had very constructive meetings here," Mr Talbott told Islamabad's Institute of Strategic Studies.

Pakistani Foreign Secretary Shamshad Ahmad said after the talks: "I think we bave significantly achieved

Talks in Delhi at the weekend between Mr Talbott and Jaswant Singh, Indian foreign minister, laid the foundation for India to accede to the treaty, perhaps within a few months, in return for omic sanctions imposed after India's nuclear tests last May first being lifted.

sanctions imposed for the nuclear tests it ordered in response to those by India lifted before it signs. However, the US has already waived some restrictions on Pakistan citing the acute financial crisis.

The US is also convinced that a a pledge by Nawaz Sharif, the Pakistani prime minister, at the UN Genera Assembly last year to adhere to the CTBT before its cutoff date, was a clear indication that the country would eventually join the treaty signatories.

Pakistan is now only trying to buy more time to win more concessions, but its a question of inching towards an eventual convergence of views," said Niaz Naik, a former foreign secretary. "The Americans have allowed economic relief to pave the way for ratification.

# pina under ressure on Beijing to wind up five more trust businesses

China yesterday pressed on ment companies.
with restructuring its trust The People's Bank of and investment industry. announcing the closure of five trust businesses linked to the country's largest financial institutions.

The government's decision to wind up the companies. which are subsidiaries of

China, the central bank, last week confirmed plans to act panies to handle some of the mountain of had debts that threaten the banking sector.

Officials associated with two of the Chinese trust China's big-four state banks companies named yesterday pany, appeared to be tied to suggested the companies tor has not only rattled

management companies for their two parent banks, Bank of China and China Construction Bank.

The announcement yesterday, which included measures to reorganise a further six trust and investment companies and transfer ownerabip at seven more, underand leading insurance com- - Dongfang and Kinda - lines how reform of the sec-

relaunched to serve as asset financial services industry.

October of Guangdong International Trust and Investment Corporation, with \$4.37bn worth of debts mostly to foreign creditors, heralded an overhaul in the trust and investment sector that has shaken international lenders' confidence in Chinese corporate risk.

eign lenders, which have ance Company of China. The sudden closure last extended little or no credit to the five companies car-

Dongfang, the official China in assets of dublous value.

Securities News said three But an official of the of other trust companies would be wound up - Changcheng, owned by Agricultural Bank of China, Huarong owned by Industrial and Commercial

Analysts yesterday said trust and investment businesses generally had sub-

central office, surprised by yesterday's report, said the company had performed well last year. Xinda had total assets of Rmb20bn (\$2.4bn), registered capital of Rmb1bn

a separate Beijing initiative may be closed as trust and foreign bankers but is sures are likely to have a and investment business and achieved profits of to establish asset manage investment businesses and unsettling the domestic very limited impact on for owned by the People's Insur-Ranbattan last year, he said At Bank of China, a senior official suggested restructur-ing was still under consideration: Speaking of Donglang, he said: The company may be separated from Bank of China and made independent. It may be closed down sion," he said. "The aim is to ensure that Bank of China

focuses on the commercial

70 talks

NEWS DIGEST

EXPORTS TO ASIA PICK UP

#### Australia sees its trade deficit halved

Australia's trade deficit almost halved in December, according to figures published yesterday. The goods and services trade deficit fell to A\$508m (US\$320m), its lowest since late 1997 and nearly half the A\$1bn levels of each of the preceding three months.

Economists said the figures suggested the worst of the slump was over for exports to traditional Asian markets such as Japan.

Unadjusted data showed total exports rose 8 per cent over the month. Of that, exports to Australia's 10 main south-east Asian and north Asian trading partners rose 9 per cent, exceeding a 7 per cent increase in exports to all other countries. Exports to Japan rose a monthly 11 per cent and those to China 17 per cent.

imports fell 4.5 per cent, led by an 8.8 per cent decline In capital equipment imports, the third consecutive monthly fall. Some analysts said the continuing slide in business investment raised concerns about weakening domestic demand, although others said the fall in capital goods imports gave a weaker picture than indicated in other data. Gwen Robinson, Sydney

SINGAPORE

#### Fine imposed over speech

A Singapore opposition leader was found guilty yesterday of making a speech in public without a police permit in a case he hoped would bring an end to the government's tight controls on public speaking.

Chee Soon Juan, head of the Singapore Democratic party, was fined S\$1,400 (US\$827) and ordered to serve seven days in jail if he did not pay. He chose to go to jail.

I have said that I will not pay the fine if convicted because I feel that I have done absolutely nothing wrong," Mr Chee said in a statement after the verdict. He had faced a fine of up to S\$5,000. A penalty of more than S\$2,000 would have barred him from running for election

A chief part of the defence was trying to prove that the Public Entertainments Act, under which Mr Chee was charged, is used to restrict political opposition. Mr Chee says the permit system makes it difficult for the political opposition to be heard. The government insists such restrictions are necessary to maintain order, permits are sometimes given to the political opposition and that there Shells McNulty: Kusla Lumpur

VIETNAM

#### Communists act against graft

Vietnam's ruling Communist party says it is to launch a campaign to eliminate corruption within its own ranks, a move which analysts in Hanoi say could intensify factional rivalry within the party leadership.

Dac Duy Quat, deputy head of the party's ideological commission, told foreign journalists in Hanol that the campaign would "run from the highest to the very lowest level", and that party members found to have committed crimes would be prosecuted.

Mr Quat was speaking after a 10-day plenary session of the party's central committee, devoted to the issue of the development of the party. He insisted that there had been no discussion at the meeting of a possible reshuffle of the top leadership. However, foreign diplomets are waiting to see whether the plenum will be followed, as predicted, by changes to the government of Prime Minister Phan Van.

The new emphasis on criticism and self-criticism is likely to further complicate and slow the Vietnamese government's already tortuous decision-making process. Apart from corruption and graft, Dao Duy Quat said the party would also root out "ideological errors and decadent lifestyles" which he said had damaged the prestige of the party with ordinary people. Jonathan Birchall, Hanol

#### Opposition politician freed

Burma's military government yesterday said it had freed an 81-year-old political opponent it sentenced to seven year's jail last year.

National League For Democracy member Ohn Myint was freed and pardoned late last month "out of consideration for his age and respect for his family," the government

He was found guilty of working with an underground organisation and attempting to create misunderstanding between the government and ethnic groups, Amnesty International, the human rights group, last year described Own Myint as a prisoner of conscience and called for this

The government has waged a long battle against sup-porters of Nobel Peace Prize laureate Aung Sang Suu Kyl's National League for Democracy. Reuters, Rangoon

FOREIGN INTEREST DELAY CAUSED BY DEMAND FOR 'STOP-LOSS' GUARANTEES.

# Thai bank sell-offs get under way

By Ted Bardacks in Bangkok

The process of selling off two recently nationalised banks with Morgan Stanley Dean hasn't been open to foreign "stop-loss" guarantees.

Thailand has begun but is Witter, which was chosen to banks." Henry Ho, Citibank Thailand's economic likely to move slowly due to organise the sale. investor demands for "stoploss" guarantees from the That government, officials

said yesterday. Two mid-size banks, Bangkok Metropolitan and Siam

That process was delayed balked at signing a contract

That matter had now been resolved and the banks were likely to be sold by the mid-

Citibank, which earlier bank. City, were nationalised last tried to buy First Bangkok. Mr Ho said that the level ing the modality of how to

told Dow Jones Newswires.

dle of this year, the officials week that HSBC was also sial especially if they are eyeing a takeover of the given to foreigners.

over Bangkok Metropolitan. give some form of guarantee said.

"Clearly this is a fantastic against problem loans which when central bank officials opportunity because over arise after the purchase of a many years this market stake, commonly known as

Thailand's economic cabirepresentative in Thailand, net has already approved the Bangkok Metropolitan guarantees, which are likely executives said earlier this to be politically controver-"When we get to discuss-

year and the Thai government originally planned to
nationalised, yesterday said
sell them back to the private
it was interested in taking
Thailand's willingness to delayed," a monetary official

Jakarta to press on with bank rescues

Indonesia's government yesterday announced it would approve recapitalisation of dozens of banks this month and next, biting the bullet on a much delayed bail-out in spite of growing concern that this may yet be

blocked in parliament.
Officials said the central bank and finance ministry receive capital in the form of government bonds, matching private injections at a ratio of four rupiah to one, on February 15. Two more groups of banks would be given the go-shead on March

7 and 31. injection fter India's nuclear tests | An injection of ast May first being lifted. | Rp257,000bn (\$28.7bn) in Pakistan also wants all fresh capital into 70 state and private banks would offer a lifeline to the finanground to a halt for lack of liquidity. The World Bank warned earlier this month it would only help fill a \$9bn budget deficit with new

government decision to get, but most banking recapitalise two private experts think that is optimisbanks and 10 regional state banks has riled MPs, who had already been reluctant to approve a budget allocation of Rp18,000bn for interest payments on the bonds this year. They were particularly suspicious of the inclusion of Bank Lippo, part of the Lippo Group which has been close to President B.J. Habibie, and so far officials

The deadlock in parliament helps explain why officials have yet to reveal the interest carried on the bonds, leaving it unclear whether banks could sell the bonds at a rate competitive with central bank paper, now just under 36 per cent. But officials said the budget allocation would allow for cial sector, which has only just over 20 per cent, leaving banks with only interest income but no real capital injection.

Officials said that plan was contingent on success in loans if reforms such as like raising another Rp16,000bn restructuring moved ahead. from asset sales, in addition

tic. "It just doesn't hang

A bond issue of at least Rp100.000ba would finance this new recapitalisation effort. Another Rp140,000bu in bonds would be issued to the central bank in effect transfering the burden of a similar sum lent to ailing banks last year, at a real interest rate of 3 per cent. Until private banks know

have failed to explain its what the interest rate on the bonds will be few recipient banks will be able to raise outside capital to take part in the programme, banking experts warn. Bank Bali and several other banks have postponed rights issues until later this month. Nearly 90 per cent of the

recapitalisation funds will help the state banks. Bankers and officials said the government had allowed state banks to go easy on bad borrowers, however, including associates of former President Suharto and small

But last week's leak of a to the Rp18,000 in the bud- Comment & Analysis, Page 15 limited autonomy, Reuters shortly.



Indonesian

Foreign Minister Ali Alatas said tured right in a Jakarta juil yesterday the juiled East with Moslem leader Abdur-Timorese guerrilla chief, rahman Wahid), who is Xanana Gusmão, could be serving a 20-year term for freed this year as part of a armed rebellion, is to be deal to offer East Timor moved to house arr

# Philippine business confidence revives

The Philippines has seen a resurgence of business confidence in spite of further evidence of recession, according gross domestic product.

to an influential survey. Although the Philippines has been relatively insulated from the worst of the Asian economic crisis, data

AUCTION NOTICE

**UK GOVERNMENT EURO** 

TREASURY BILLS

For auction on 9 February 1999

The Bank of England announces the issue by Her Majesty's

Treasury of €1,000 million nominel of UK Government Euro Treasury

Balls, for auction on a bid-yield besig on Tuesday, 8 February 1999. An additional €50 million nominal of Euro Bills will be allotted directly to the

Benk of England for the account of the Exchange Equalisation Account.

2. The Bills to be issued by auction will be duted 11 February 1999

3. The auctions will be open to anyone who wishes to apply. All

telephone. Completed application forms must be lodged, by hand, at the Bank of England, Customer Settlement Services. Threadneedle Street, London into later than 10.30 s.m., London time, on Tuesday, 9 February

1999. Payment for Bills allotted will be due on Thursday, 11 February

Each application at each yield for each maturity must be made on a separate application form for a minimum of €500,000 nominal.
 Applications above this minimum must be in multiples of €100,000

Applications must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity

date of the Bills for which application is made, the yield bid and the amount applied for.

6. Notification will be despatched on the day of the auction to

applicants whose applications have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with Euroclear or Cedelbank, Bills will be credited in the relevant

Services, Bank of England after 1,30 p.m. on Thursday, 11 February 1999 provided cleared funds have been credited to the Bank of

Pic. Bank Relations, St George's House, PO Box 767, 6-8 Eastcheap, London EC3M 1LL. Definitive Euro Bills will be available in amounts of €10,000. €100,000, €1,000,000 and €10,000,000 nominal.

7. Her Majesty's Treasury reserves the right to reject any or part of any

The arrangements for the auction are set out in more detail in the

am. All applications will be subject to the provisions of the

Information Memorandum on the UK Government Euro Treasury Bill programma saused by the Bank of England on behalf of Her Majesty's Treasury on 7 July 1998, and in supplements to the Information

9. The €50 million of Euro Biffs to be alliated directly to the Bunk of England for the account of the Exchange Equalisation Account will be for meturity on 12 August 1999. These Bills may be made available through sale and repurchase transactions to market makers in order to lecitate

10. Copies of the Euro Bill Information Memorandum may be obtained from the Manager, External Debt, Foreign Exchange Division at the Bank of England (telephone number 0171 601 5982). UK Government Euro Treasury Bills are issued under the Treasury Bills Act 1977, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

nd's Euro Treasury Billis Account No. 59005516 with Lloyds Bank

systems against payment. For applicants who have requested definit Bills, Bills will be available for collection at Customer Settleme

€200 million of Euro Bills for maturity on 17 March 1999, €500 million of Euro Bills for maturity on 13 May 1999 and €300 million of Euro Bills for maturity on 12 August 1999.

applications must be made on the printed application lorms ave

joined most of its neighbours in recession in 1998 with a more than 100 companies

Local businesses, however, believe the Philippine econ-

released late last week Club, a leading business 1898 when more than 96 per national product, including showed the country had association. The six-monthly survey of

0.5 per cent contraction in showed a "marked shift and resurgence of optimism." with 80 per cent of respondents expecting the economy omy is now on a recovery to perform better in 1999 path, according to the sur- than last year. This was in vey by the Makati Business sharp contrast to surveys in

growth rates would be lower workers overseas, will than in 1997.

appeared the economy had bottomed out in 1998 and was now set for a mild to 3.5 per cent and a range of

The MBC forecasts gross economists of 1 to 3 per cent.

expand by 2.2 per cent in Guillermo Luz, executive 1989 after almost flat 0.1 per director of the MBC, said it cent growth in 1998. This compares with a government target for GNP growth of 3.0 forecasts by private-sector

# Delhi-cancels subsidy cuts India's PDS is estimated to

India's governing Bharatiya Janata party yesterday bowed to angry protests from among its restive coalition partners and withdrew a series of food subsidy cuts affecting the country's poor-

The embarrassing rollback, just four days after the subsidy cuts in basic staples were announced as a means of trimming India's high fis-cal deficit, follows threats from several regional parties in the coalition to withdraw entrenched subsidies was

earlier condemnations from spate of recent attacks - 5.6 per cent of GDP. which they alleged were India's exports continu

the weekend of Madan Lal ber to \$3.57bn. Khurana, BJP parliamentary affairs minister, also in criti-cism of his party's bandling exports for the preceding of the attacks on Christians.

Under concerted pressure and sugar distributed under the public distribution sys-tem (PDS) for those defined. The train

44-64 per cent for wheat, sugar and rice rationed under the same scheme but to those "above the poverty line" will remain in Vijay Kelkar, India's senior finance ministry bureaucrat, has said last week's move to attack these forced by "tremendous fiscal

cost around 0.5 per cent of

gross domestic product. By

official measures, roughly 36

per cent of India's 980m

people live below the pov-

erty line. Price increases of

The climbdown follows pressure", admitting at a sarlier condemnations from weekend press conference some of the same allies in that the government seemed the 13-party coalition over certain to overshoot this the BJP's handling of a year's fiscal deficit target of carried out by groups affili-ated to the BJP - against ber, according to official Christian missions and data, rising 6.73 per cent in

churches. dollar terms for the month it caps a dismal few days from a year earlier to dollar terms for the month for the government, which \$2.78bn. Imports fell 3.37 per suffered the resignation at cent year-on-year for Decem-The modest increase fol-

month, though overall export growth for the first 10 from its main allies, the gov- months of India's fiscal year ernment agreed to withdraw remains 2.88 per cent lower proposed price rises of up to than the period a year ago. 30 per cent for wheat, rice This has left a cumulative trade deficit for the period of a national rationing scheme, \$7.29bn, up 63 per cent on a

The trade gap has as falling below the official remained capped by lower world oil prices.

# Corporate radar.

FINANCIAL TIMES

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Hungary 2011 plans wed annov Brussels

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-NEWS DIGES!

HTS-TO ASIA PICK UP

#### tralla sees its trade icit halved

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FOR STOP LOSS GLAPIT

# Harbaran met At Cash of the same

# China under pressure on WTO talks

By James Kynge in Beljing

A possibility that Taiwan could join the World Trade Organisation before China is pushing Beljing to consider greater market liberalisation as an important US-China meeting approaches.

Chinese officials said Zbu Rongii, the premier, was expected to seek Washington's reaffirmation of an informal agreement that Taiwan would not be admitted into the WTO before China. Mr Zhu's visit is scheduled for late March and early April

But, the officials added. Belging realises that the US may find such an assurance. hard to provide unless China unveils concrete steps to liberalise trade and investment, thereby advancing its own WTO entry bid.

China does not oppose Taiwan's entry into the WTO, which does not require statehood. But it does insist on being admit-ted before the island, which split from the mainland after the Chinese civil war in 1949 and is regarded by all the main powers as part of

Recently Taiwan has made considerable progress toward fulfilling require-ments for WTO admission. with the EU verifying an agreement on the terms of its accession last month leaving Canada and Hong Kong yet to sign bilateral accords, China, by contrast, has stalled in its WTO bid or

Foreign diplomats in Beijing deny that a "Taiwan card" is being played to encourage China into liberalisation concessions.

an objective need to prevent (both of which are statearguments for Taiwan's owned) have been urged to prior entry from

strengthened the position of investment projects in the those who push for faster telecoms services sector.

Africa

in US

The bill, which would

reduce sub-Saharan Africa's

\$230bn debt burden, was presented as "a model" of

the type of trade legislation

which Mr Jackson and other

liberal Democrats would sup-

port. The bill would raise foreign aid to the region to

more than \$800m, provide

duty-free access for African

products and require that some of the savings from debt relief be used to fund

In 1997, the Clinton admin-

istration introduced a less

bountiful Africa trade bill

with strong bipartisan back-

ing but it has yet to win

congressional approval. A similar bill is expected to be

introduced today in the

' Many liberal groups opposed the administration's

initiative on the grounds that it offers too little and

that it too closely resembles

the North America Free

Trade Agreement. It has been dubbed "Nafta for

Africa" and several textile

and clothing groups have

objected to the access it

would have granted to the

the barrel in a way which

compromises its integrity

addresses Africa's most

important development

need: debt relief. Debt servic-

ing is sapping Africa's capac-

The administration's bill

meet "the onerous condi-

calls for a free trade area

between the US and sub-Sa-

Monetary Fund, he said.

DATAD COUNTRIES.

advocacy group.

ity to develop itself."

ing exports.

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isation within the Chinese

Recent market access initiatives have been motivated partly by the needs of China's slowing economy for foreign investment, and partly by a desire to communicate to the world that China's WTO hid is not moribund, officials said.

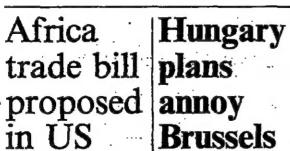
Officials announced last week that foreign trading companies would be allowed to set up offices in several new cities beyond Shanghal and Shenzhen, to which they are currently limited.

They will also be permitted to purchase stakes in Chinese trading companies, many of which have fallen on hard times because of the Asian crisis and fierce domestic competition.

Beijing also plans to remove import licence controls or quotas on about 300 commodities by 2005. It recently announced plans to reduce tariffs on 1,014 items in order to combat the wave of smuggled goods into the country.

But perhaps most interest ing has been the revival this week of an open debate on liberalising the booming telecoms sector, a key stumbling block to China's WTO accession. Ma Yu, a researcher in the trade min-'istry's think-tank, argued in an official newspaper yesterday that monopolistic conditions would hinder the development of the local telecoms industry. He urged more competition and liberalisa-

His suggestions contrast with the trend of the last few months, during which Chi-But Chinese officials see nese telecoms companies buy local equipment wherever possible, and Beijing This realisation has has banned new foreign



Congressman Jesse Jackson Viktor Orban, the Hungarian prime minister, has reaf-Jr, an Illinois Democrat, yesterday introduced an Africa firmed plans to sign a free trade agreement with Crostrade bill with strong labour and environmental provitia, a move which could contravene European Union law sions which immediately and provoke a dispute over drew support from groups generally opposed to free its entry to the EU.

The plans have annoyed EU officials because Croatia has no free trade agreement with the EU and is not a member of the World Trade Organisation.

Any free trade agreemen would have to end when Hungary joins the EU, as it official familiar with Hunga ry's negotiations said any free trade agreement would raise two problems. He said: "There would be a disregard from the Hungarian side of the political relationship currently existing between Croatia and the European Union. The second [problem] would be commercial. If such an agreement were concluded prior to accessi might later raise the call for potential compensation

claims." Hungarian officials aren the treaty is irrelevant to EU membership because it will expire when Hungary joins. One Hungarian official said: "Croatia is a neighbouring state. We know whether it is valid for us to make an arrangement, even for a limited amount of time. [Such an arrangement] car he a very useful tool of good neighbourly co-operation."

US market for African cloth-Any disagreement with Congressman Jackson's the EU would tarnish Hunbill does not put Africa over gary's reputation as one of the applicants keenest to meet membership requireand independence," said Randall Robinson, president ments. Mr Orban stressed Croatia's economic imporof TransAfrica, an African tance to Hungary during his visit. In 1997, Hungary exported \$223m to Croatia. against imports of only \$36.9m. Mr Orban underlined Hungary's desire to belp to regenerate the Adriatic port of Rijeka, a potential route does not guarantee debt for-

giveness, even if countries Last, week Hungary tions" of the International announced that Hungary intended to seek five-year transitional arrangements -The administration's bill temporary exemptions from BU law - on some areas of trade with non-EU countries.

for shipping Hungarian



artico (20)



# Ecuador raps US and EU for 'exploiting' banana dispute

banana exporter, yesterday US, Guatemala, Honduras, reproached the US and European Union for trampling on the view of its co-complainits interests while exploiting ants that the EU has not the transatlantic banana dis- done enough to bring itspute for their own purposes. banana import regime into Speaking on the day that line with a 1997 WTO ruling. Ecuador gave evidence to a Mr Betancourt said the World Trade Organisation amended system, introduced panel reviewing the EU's on January 1, "continues a revised banana import pattern of flagrant non-comscheme, Roberto Betancourt, pliance by the EU".

the country's WTO ambassador, expressed dismay that the two trade superpowers seemed to be using the dispute "to pursue trade policy gendas which have little to do with hananas".

Ecuador, the world's largest against the EU alongside the up at Ecuador's request, has Mexico and Panama, shares change.

> However, Ecuador has viewed Washington's tactics in the dispute with mounting concern, especially its attempt to impose trade sanctions on the EU without waiting for the WTO panel

Ecuador, which brought to rule on the legality of the the politically well-conthe original WTO case new scheme. The panel, set nected US banana multipaalso been asked to make spe- of the banana business elsecific recommendations for

Ecuador is particularly worried that the US and EU may try to reach an accommodation at its expense. The small central American country is currently the biggest banana exporter to the BU and production and exports are predominantly in Ecuadorean hands.

Alfredo Pinoargote, Ecuacomplained last week that Washington was advocating changes to the EU banana regime favouring Chiquita,

where in central America.

The WTO panel is due to rule on the EU's new import arrangements by April 12. The same panel was also last week asked to arbitrate on the US request for \$520m in trade penalties against EU

Although the EU scheme continues to favour more expensive bananas from former British and French colothe import licensing system unfair to distributors of

# EU to develop secure electronic business network

The European Commission has taken a step forward in the promotion of electronic ess with the award of a contract to develop a secure, pan-European e-business net-

secure electronic transmission of information which would otherwise have been handled in paper

The contract has been won The project, expected to be by the London-based tech-operating by next month nology arm of the consul-

Brussels, will be to demon- not been disclosed. Alastair strate in a "live" environ- MacWillson, PwC partner for ment the advantages of technology risk services, said the contract set a precedent for e-business services across Europe.

It will make it possible for companies from all 15 member states to submit research proposals in complete security over the internet to the Commission's science and

technology directorate. Businesses using the system are expected to benefit from improved efficiency, speed and costs savings. The Commission has already made it clear it wants to see 25 per cent of its purchasing

to take place electronically by 2003. At present this ambition is being thwarted by the diffi-

culty of carrying out transactions in a secure environment. In addition, legal and systems differences across the member states have made transactions difficult.

Under the terms of the contract, the Commission will take on the role of 'trusted party", guaranteeing the security and integ-

PwC in the role of certifica tion service provider. It will encrypt data to ensure it is unintelligible if

intercepted and make use of electronic signatures to document and the authenticity of its origin. With the system, PwC says, transactions cannot be repudiated

# 66 Geneva's Private Bankers did not just improve the profession. They created it. ??

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NORTHERN IRELAND SINN FEIN CHIEF APPEALS TO CLINTON ADVISER TO RESCUE 'PEACE LINE' PLANT

# Adams urges US to save factory

Gerry Adams, president of of the Irish Republican Army, yesterday appealed to Jim Lyons, President Bill Clinton's economic adviser on Northern Ireland, to rescue Mackie International, a textile machinery manufacturer which called in receiv-

Mackie straddles the "peace line" separating Belfast's Protestant and Roman. Catholic neighbourhoods, and in recent times has been held up by governments as a symbol of what is possible in the most economically blighted part of Northern Ireland. Mr Adams is MP for the district that includes the factory, where 350 people

that President Clinton stood on the factory floor and declared that Mackie was weaving disparate threads into remarkable fabrics".

Mr Adams appealed for funds from the International Fund for Ireland, an aid programme backed by several governments to which the US and European Union are the biggest contributors. Mackie has received more than £30m (\$49m) in public money since 1992.

Receivers were called after the failure to secure sufficient finance to buy out the Shield Group, a privately owned engineering company based in England, which would have provided Mackie's new foundry with a large order book and solved

The company has been in could realise as much as 28m funding will cease this year. ecline for several years towards repaying the main. The IFI is an innovative decline for several years with falling demand for its main product - looms for the linen industry - and its move into environmental engineering yet to deliver. Adam Ingram, the North-

ern Ireland economy minister in the UK government. conceded the directors "had no option" after weekend talks with banks failed to find the £15m to buy out Shield's assets and provide the necessary working capital. Roger Powdrill and Tom Keenan, of Deloitte Touche, the accountancy firm, have now been instructed to trade the various companies with a view to selling the business and securing as

many jobs as possible".

The factory and its

towards repaying the main creditors, Ulster Bank - Nat West's local subsidiary: Capital Bank, which lent money secured on the equipment; and the Industrial Development Board, the government's investment promotion agency which is owed • The International Fund

bodies set up under the Northern Ireland peace David Trimble, first minister in the new Northern Ireland administration, has urged the European Union to continue funding the IFI. There have been indications

for Ireland is to appeal to the US Congress for further sup-

port amid fears it will be dis-

solved as powers shift to

aid body that has pioneered the use of funds to promote reconciliation between Northern Ireland's divided amunities. It is the only body through which US aid can be channeled to Ireland. William McCarter, its chairman, said he would urge Congress to continue backing for another four or five years "until the job is done". Congress is to consider the Clinton administration's foreign aid budget, which includes a \$20m proposal to

back the IFI, in April. The fund receives about \$20m annually from the US. The EU has provided a threeyear package worth €17m (\$19.4m) and Canada, Australia and New Zealand have

#### **Former Coopers** partners fined over Maxwell

By Jim Kelly in London

Coopers & Lybrand were yes terday ordered to pay £3.5m (\$5.7m) in fines and costs for the firm's fallings as auditor of the business empire of the late publishing tycoon Robert Maxwell.

It is the toughest penalty meted out by the Joint Disci plinary Scheme, the accoun tancy profession's senior

The firm, which merged with Price Waterhouse to form PwC last year, was criticised for failing to blow the whistle before the collapse of the Maxwell empire - with £400m in missing pension fund assets - after the death of the tycoon in 1991.

The watchdog criticised Coopers, then one of the Big Six audit firms, for lack of vigilance as auditor at many of Maxwell's companies and pension funds - and also for poor planning in its duties

as statutory auditor.
The watchdog came to two conclusions that reduced the penalty, it could have imposed. It found the colapse of the Maxwell empire was neither caused nor facilitated" by the firm and that the firm had caused "no direct financial loss". But for these findings the penalty would have been very substantially greater

However, the JDS did find the real problem was that Coopers' never formed an objective picture of the 400 Maxwell companies - most which it audited.

By 1991, said the JDS. "there had been various straws in the wind that all was not well in the Maxwell empire", but no single per son had the "full overview" The tribunal said it did not accept that this was entirely the result of respecting client confidentiality.

The report identifies Coopers as "victims of deliberate deceit". It adds: "On any view massive frauds were perpetrated, involving ... conspiracy, (alse accounting and the deception of auditors and advis-

The pension funds were rich when Mr Maxwell's companies became short of cash, "Mr Maxwell made use of pension fund and investment trust assets both as unsecured loans to his companies and as collateral for loans to his companies by

others," said the report. It concluded that Coopers auditors and staff: • failed to ensure that a 230m unsecured loan of pen-

sion fund assets to Pergamon Holdings was disclosed in the accounts. • Failed to identify that stocks of Maxwell's First Tokyo Indez Trust were being lent without collateral.

Failed to qualify the accounts of First Tokyo Index Trust in 1990. Failed in July 1991 to tell the board of Robert Maxwell Group that a substantial amount of work was needed to be satisfied the company

was a going concern. Failed to consider - by August 1991 - whether there was evidence of fraud.

#### **NEWS DIGEST**

#### SOCCER

#### **England coach sacked** over disability comments Glenn Hoddle was sacked last night as coach of the

England soccer team, over comments about disabled people. The Football Association said: "It became apparent to all concerned that this was the right decision for English football. That decision is that with regret the FA and Glenn Hoddle agreed to terminate Glenn's contract." Mr Hoddle is reported to have said in an interview with The Times newspaper: "You and I have been physically given two hands and two legs and a half-decent brains. Some people have not been born like that for a reason. The karma is working from another lifetime. I have nothing to hide about that, it is not only people with disabilities, What you sow you have to reap.

The FA added: "He accepts that he made a serious error of judgment and of course he has apologised. He is upset but that is nothing to the upset felt by disabled people about his comments."

Nationwide building society, which recently took over as sponsor of the England team, said: "We are pleased the FA have acted decisively . . . and the job for us is now to concentrate on the first major event of our sponsorship. which is the forthcoming match against France."

Forty-year-old Mr Hoddle has been dogged by contro-

versy ever since being appointed England coach in 1996. He has been criticised both for his lack of success on the football pitch and his eccentric statements off it, partly inspired by his friendship with Eleen Drewery, a faith nealer and former public house landledy.

#### STEEL INDUSTRY

#### Threat to jobs recedes

A threat to hundreds of jobs in the British steel industry appeared to be receding last night after the European par liament's environment committee dropped proposals that would have outlawed leaded steel in cars. The committee amended a proposed European Union directive setting out rules for recycling old vehicles to allow car manufacturers to continue to use up to 0.35 per cent by weight of lead in steel parts. Industry observers were awaiting detailed guidance last night about the impact of 137 amendments to the directive, which must now be debated by the full European partiament. However, Denis MacShane, Labour chairman of the cross-party steel group of MPs, said: "This on the face of it satisfies our demands and shows that the British steel industry has mounted a successful defence of its position that to ban lead completely would be counter productive." Kevin Brown, London

#### E-COMMERCE

#### Threat to prospects, MPs told

The UK's prospects in electronic commerce could be preudiced by heavy-handed and insular legislation, MPs were warned yesterday. Giving evidence to a House of Commons committee, representatives from the telecommunications, electronics and internet services industries voiced concern about measures to licence companies providing security and electronic signature recognition. The worry was that the UK would adopt narrow, national and restrictive legislation only to find it had been outflanked by fastchanging technology. E-commerce, or trading over on-line networks such as the internet, is growing rapidly. There are concerns, however, over security of internet message are asking for measures that would enable them to demand the key to an encrypted message if wrongdoing was suspected. Alan Cane, London

#### LLOYD'S CAPITAL PROVIDERS

#### Overheads set to fall

Lloyd's of London intends to reduce the level of overheads paid by capital providers to the insurance market over the next four years from its present level of 2.45 per cent to 0.25 per cent of market capacity, the amount of underwriting they are allowed support. Lloyd's also said it would have paid off by the year 2001 the last of the £300m (\$492m) syndicated loan raised as part of the market's 1996 reconstruction programme, ending the 1.1 per cent premium levy. Andrew Bolger, London

#### COMMERCIAL RADIO

#### Share of advertising increases

Commercial radio stations gained more than 5 per cent of the display advertising market for the first time last year. as advertisers moved away from television, according to new figures. Figures from the Radio Advertising Bureau, to be published at a City conference, show radio advertising is continuing to expand at nearly 20 per cent per year despite fears that it will be affected by an economic downturn. The bureau now estimates that radio gained 5.4 per cent of display - non-classified - advertising last year, compared with 4.9 per cent in 1997. The 5 per cent mark was seen as an important target. John Gapper, London

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• The UK will be left on the end of the year.

# Daggers drawn and dragons awakened in the reform debate

The constitutional change programme is the most radical for 350 years but opinions differ on its outcome. Deborah Hargreaves reports

Sholding a digger at its heart? Tony Blair, Britain's prime minister, says the driving force behind his ambitious programme of constitutional change is his desire to modernise the institutions of the nation, making them fit for the 21st cen-

William Hague, leader of the opposition Conservative party, says Mr Blair will ruin the union of Scotland, Engiand, Wales and Northern Ireland, making British citizens "strangers in their

The government's constitutional reform programme is the most radical since the temporary abolition of the monarchy after the execution of King Charles I almost exactly 350 years ago. Elections will be held on

May 6 to choose members for the Scottish parliament and its work in April. All three

Mr Blair is reforming the House of Lords, the upper chamber of parliament, by removing the right of hereditary peers - aristocrats who inherit their titles - to sit and vote in the house.

ing party to come up with an-

alternative to the current,wholly unelected body. In England, regional development agencies will be set up from April 1. Elections will take place next year for a London mayor and assembly. Mr Blair is pressing for other big cities to elect may-

The changes will also rede-

English nationalism has stirred in the north-east, a region pushing for

an assembly

fine the relationship of the Welsh assembly. Northern individual to the state, with Ireland's assembly will begin a freedom of information bill and the incorporation of the from the House of Commons Human Rights into UK law. Critics say Mr Blair's approach is piecemeal and lacks an overall blueprint.

Mr Hague has likened it to the antics of a home improvements devotee who tears down the walls of an old, rambling house without

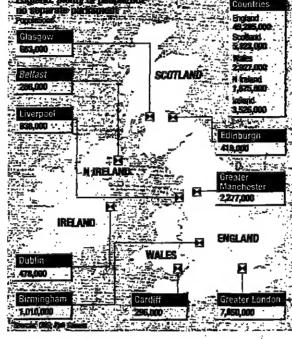
first deciding which are holding it up.

Baronesa Jay, Labour's leader in the House of Lords. recently countered these accusations, referring to individual changes that formed part of the same jigsaw. She hinted that representatives from the Scottish and Welsh assemblies could sit in the House of Lords, following the example of federal systems such as Ger-

But the government will be advised by its working party - a Royal Commission on how a new second chamber will be constituted. The commission will be headed by Lord Wakeham, a prominent Conservative. Robert Hazell, who heads

the Constitution Unit, a specialist think-tank, says the speed with which the government has introduced the changes is phenomenal. It assed 11 constitutional bills in its first session of parliament. "But now some obvious gaps have appeared. The biggest immediate one is what to do about 'stage two' ment in England and "the whole English question", as

another unresolved issue. Mr Hague believes the nationalism may be awakened once the other nations are seen making their own decisions. Few people in regional government across



about Scotland and Wales getting their own regional representation. But Mr Hazell says they will care when they are seen getting a better deal because they have a bigger political voice.

He compares the situation to that of Spain 20 years ago. The nationalism movement grew quite quickly after the reform of the House of death of General Franco and Lords," he said. He also in 1979 Madrid granted Catalan and Basque regions. The government did not the move unleashed calls for "sleeping dragon" of English regional governments in Andalucia and other parts of Spain. Madrid was forced in the end to concede a tier of

stirrings of English nationalism in the north-east, which is pushing for an assembly.

Critics of the reforms say that once Scotland has a degree of independence it could press for separation from the UK altogether. Some members of the Scottish National party want to use the forum to declare

But Mr Blair insists that what would really pull the

country apart would be resistance to calls for change, leaving a choice between an unacceptable

REGIONAL GOVERNMENT SNP WANTS OVERSEAS TRADE OFFICES AND ROLE IN EU COUNCIL OF MINISTERS

# Nationalists demand Scots foreign ministry

Scotland should open its own foreign affairs ministry when its new parliament is set up in May, the Scottish National party said yester-

George Reid, external affairs spokesman, told a while the governing Labour meeting of diplomats and foreign correspondents in London: "It will be a key battleground in the new parliament between the SNP, which is eager for Scotland to rejoin the world, and

ent UK parliament) should act as its gatekeeper." The first elections to the

300 years, will be held in May. The SNP campaigns for full independence for Scotland in the European Union party and the opposition Conservative and Liberal Democrat parties want it to remain in the UK. Alex Salmond, SNP leader,

wants to hold a referendum on independence in the par-liament's first four-year term

that Westminster [the presparliament, the country's

and the party wants to use its presence in the parlia- Mr Reid said. The SNP ment to establish institutions in preparation for inde-Mr Reid said an external

affairs department would handle relations with EU institutions, the UK and Commonwealth. He wants it to have a proactive role in developing foreign policy relationships rather than the "cosmetic consultation" envisaged by the Labour

Scotland should have a Ministers on important Scot-

wants an office of the Scottish government in Brussels and a European committee in the Edinburgh parlia-

It also wants to set up a network of offices overseas to boost Scottish trade, tourism and inward investment. But the Labour government in London will resist the transfer of power for foreign affairs. It said yesterday that Mr Reid would be the SNP's "minister for conflict" voice in the EU Council of that would wreck the parlia-

puts support for the SNP at 39 per cent of the Scottish electorate, with Labour on 38 per cent and the Conservatives and Liberal Democrats each on around 12 to 13 per

in Scotland - 65 per cent according to the latest polls - believe independence is inevitable and 35 per cent of the electorate is actually in favour of it. "There is a subterranean stream of Scottish nationalism which has continued for the past 300 years," Mr Reid said.

The SNP says most people

#### defaults, or unlawful acts in relation to Maxwell companies that needed a "whistleblowing" report. EUROPEAN UNION GOVERNMENT WILL SOON PUBLISH DELAYED PLAN FOR SWITCH FROM STERLING TO EURO TRADE UNION CHIEF WARNS OF DAMAGE FROM STAYING OUTSIDE

# **Netherlands PM visits** Blair to commend euro

By Andrew Parker, Political Correspondent

Tony Blair yesterday single currency, but coupled stepped up his government's to a request that efforts to efforts to soften public scepticism to the European single currency by giving a British platform to Wim Kok, the Netherlands prime minister, to argue the bene-

fits of monetary union. "Economic and monetary union has strengthened Europe internally and externally...I hope the UK will told businessmen in Bristol, south-west England during a ing in euro-zone countries no visit with the British prime

Mr Kok is expected to be UK and argue the case for European Union. Goran

Separately, London has

sent a diplomatic message to other European capitals about its wish to join the convince a scentical British public should not be blunted by disputes over tax har-

Before a question and answer session with the businessmen in Bristol, Mr Kok went declared that the launch of the single currency had been a success. He said the euro would foster more trade and investment because companies operatlonger had to contend with exchange rate fluctuations.

Mr Blair said the UK welthe first of several centre-left comed the euro's "good European leaders to visit the start" and wanted it "to succeed". He acknowledged the positive engagement in the public debate about the euro was currently "pretty poor". Persson, the Swedish prime adding: "It's part of our job minister, has already agreed as a government to get out and raise the level of it." Meanwhile, a UK govern-

Mr Kok would be Britain's preferred candidate to come the next president of the European Commission the Dutch prime minister had indicated he was unlikely to be available because he is only part-way through the second term of

his government. The National Changeover Plan setting out the practical measures needed for a British transition to the euro has been given final approval by ministers and is expected to be published in the second half of this month, Kevin Brown writes.

The changeover plan sets out a timetable for switching from sterling to the euro if British membership sometime early in the next century is approved by parliament and by the electorate in a referendum. It does not deal with whether the gov-



# City of London mayor deplores delay over entry

London could start losing financial business to other European cities in less than five years if the UK continues to postpone a decision on joining the euro, Lord Levene, Lord Mayor of London, said yesterday.

The financial community would like the UK to join within three years," said Lord Levene, whose jurisdiction is the City of London. His warning is one of the representative of the financial community against the wait-and-see attitude

adopted by Tony-Blair, the A month after its launch. the euro has imposed itself as a global reserve currency. In January, it accounted for half of all funds raised by borrowers on the international capital markets, compared with 40 per cent for the dollar. The combined market share of the 11 euro- sidelines with damaging zone currencies had never risen above 35 per cent and orders if it does not before the launch Lord Levene said London was ready for the single cui-

rency, and that the City still

processed more euro-denominated transactions than all euro-zone members combined. "London is still a major financial centre, but it can not hang on to that posttion if it does not take account of what is going on in the rest of the world. The sharpest criticisms from a UK will have to come off the fence soon."

> Lord Levene also warned that plans by the European impose a withholding tax on ence. bonds would affect not only the UK, but all EU financial centres. "If such a tax were to be introduced by force. business would move to Other financial centres, such as] Zurich or Bermuda."

costs for industry in lost jobs adopt the euro, the AEEU engineering workers' trade union said yesterday, Robert Taylor writes. "British industry cannot

afford to be outside the single currency," it said. "UKbased companies will face a competitive disadvantage through currency fluctuations and transaction costs. It makes more sense for inward investors to locate within the euro-zone."

The union suggested global financial policy would Commission, the EU's Brus- on a dollar-euro-yen axis, sels-based executive, to vastly reducing British influ-

Ken Jackson, the AREU's general secretary, also called on the Bank of England, the UK central bank, to cut interest rates further, saying they should be between 1 and 2 per cent lower by the

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**CONTRACTS & TENDERS** 



# THE REPUBLIC OF POLAND

# The Ministry of the State Treasury

Acting pursuant to the Act dated August 8, 1996 concerning office of the Minister of the State Treasury (Dz. U. Nr 106, poz. 493 as amended), the Act dated August 30, 1996 concerning commercialization and privatization of state-owned enterprises (Dz. U. Nr 118, poz. 561 as amended) and the Act dated June 10, 1994 concerning public orders (Dz. U. z 1998 Nr 119, poz 773) hereafter called the "Act" as well as the Ordinance of the Council of Ministers dated June 3, 1997 concerning the scope of analysis of a company and state-owned enterprise, the manner of ordering it, the development of principles of takeover and financing and conditions, satisfaction of which allows to renounce preparation of the analysis (Dz. U. z 1997 Nr 14 poz. 408) the Minister of the State Treasury

#### announces

# an unlimited tender for ADVISORY SERVICES

concerning preparation and servicing of the process of selling of 25% - 35% of shares in the company

Telekomunikacja Polska S.A.

in the mode of negotiations commenced pursuant to a public invitation

The contractor selected in the course of the tender procedure shall be responsible for preparation and full servicing of the process of making available of shares in the Company to third parties in the mode of negotiations commenced pursuant to a public invitation.

The detailed scope of works is provided for in the Specification of Basic Terms of the Order, available at the seat of the Ministry of the State Treasury (Department of Strategic Companies and Financial Institutions, room 461).

Offers in sealed envelopes should be delivered to the seat of the Ministry of the State Treasury, room 477, Krucza 36/Wspólna 6 Street, Warsaw, by the closing date of February 26, 1999 by 12 o'clock.

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# Electrolux sees e-commerce light

It started slowly, but the momentum is growing. Across Europe, a wide variety of companies, large and small, are taking the internet to heart putting it at or close to the centre of their business strategies. According to Forrester Research, the US-based market consultancy, the value of electronic commerce in Europe is forecast to soar from \$1.2bn last year to \$64.4bn in 2001.

This huge increase will be driven by greater internet usage,

he big restructuring undertaken by Electrolus during the past 18 months sures and subsequent financial recovery - has grabbed the head-

Yet there has been another, quieter, development at the world's biggest electrical appliance manufacturer, which may eventually result in even more significant changes.

The group has been developing a comprehensive internet strategy that will, it believes, deliver important advantages over its

MatsOla Palm. executive vice-president for Europe, sees the initiative as a natural development for a company driven by technology: "We established an Innovations Centre in 1996 to begin developing tools for the internet. There is a culture here where people are not afraid to try

It is a technology philosophy that filters down from senior menagement - Mr Palm is a former International Business Machines engineer - and one it aims to spread throughout the organisation.

That is probably the group's biggest challenge. Electrolux spans some 500 separate companies operating in more than 100 countries, with about 90,000 employees. It has thousands of suppliers, and millions of

But its vast distribution network, its large product base and global spread make it, in Mr

better technology, improved security, and a wider selection of merchandise and ser-

The opportunities, and threats posed, to business are immense. Who will be the winners? What is the best internet strategy? What are the risks? What are the rewards?

In the US, estimated to be some 18 months ahead of Europe in its use of the internet, the embrace of the new medium has

Palm's words, "ripe for the innovation of the internet." Important developments are

already under way. Distribux, the group's sea distribution subsidiary, has become the first company within the group to conduct all its business across the

"If Distribux's suppliers are not online, they cannot do business with us any more," says Anders Edholm, head of internet developments at Electrolux

That development has been co-ordinated by Electrolux's internet steering committee, which was formed last year with senior management representatives from the group's six busi-

One of its functions, says Mr Edholm, is to ensure that the group's brands, such as Zanussi and AEG, which are common across different businesses, are universally promoted by forth-



coming Electrolux web sites. The group at present has only a single, English-language, web site (www.electrolux.com), albeit an award-winning one. But its Global Website Project will shortly begin rolling out foreignlanguage sites across Europe, and eventually worldwide.

An electronic mail handling

Cisco, the internet networking group, have made it a central part of their organisation. Others have taken a more cantious approach. Few, however, have chosen to ignore the internet completely.

Today, the Financial Times begins a weekly series, europe.com, which will feature some of the European companies putting the internet at the forefront of their business

the area of the group best equipped to deal with any query. For Mr Palm, it is contact with the customer that is providing Electrolux with its most important benefit. We have never known who our customers are the internet changes all that. We can now communicate with them, know which products they like, what problems they have.

"It has brought a major change in the culture of our organisa tion. Now it is the customers who drive product development. The entire organisation has to develop in this direction because the demand will come directly from customers - for information, services, support, and eventually products themselves."

Mr Palm believes that direct purchase online by customers of white goods - washing machines, fridges and cookers - will remain a distant prospect. This is because of the strong position retailers exert in the market, and customers' preferences to view and discuss the products.

However, closer ties with retailers via the internet are planned, again to promote feed-back from both trade and public. It is also designed to widen access to information on Electrolux products, and a trial project is under way in Portugal, with a number of retailers online.

Other areas of Electrolux's business are also being explored for e-commerce. Some spare parts, for example, can already be ordered over the internet. system will be introduced to Manuals for appliances, which channel customers' responses to are among the most popular

requests from consumers, are to be posted on the new web sites. While important developments

are taking place on the consume side of the business, the impact of the internet on the group's supply chain - with the exception of Distrilux - has been limited. That is mainly because of its extensive use of Electronic Data Interchange (EDI) with many of

EDI involves the electronic exchange of information between customer and supplier on dedicated transmission lines. It has

organisation for several years. That too is changing, according to Mr Reholm. A central nerchasing unit for the group has recently been established as part of the restructuring. The purpose is to cut costs and the internet is

**INTERVIEW ANDREAS RENSCHLER** 

seen as playing an important role in this development. Suppliers, too, are increasingly

looking to the internet for their ordering requirements - albeen integral to Electrolux's though numbers are still relatively small.

Mr Edhoim believes the trend towards greater use of the internet will lead to a sharp rise in demand from suppliers as well as customers to conduct business

online. That is why Electrolux is

developing an internet policy now in the belief that it will be well rewarded: "The internet is going to have a great impact on we are prepared for developments as they begin to happen. christopher.price@FT.com

Christopher Price



LOUISE KEHOE IN SAN FRANCISCO

# Linux has no room for Wimps

Software that breaks the 'stranglehold' of industry giants provides a focus for dissenters - but such commercial independence cannot last

Linux is not just about software. Among devotees, the "alternative" computer operating system has become a religion. It represents freedom from the grasp of Microsoft, rebellion against the status quo. independent thinking and technical prowess, and it is growing rapidly.

It is hardly the first time such feelings, in the 1980s there was the Apple Macintosh: "the computer for the rest of us" that appealed to those who rejected IBM's alleged "stranglehold" on computing.

Then there was the internet, which before the web was devilishly difficult to use. hon-commercial - even anti-commercial - vet enormously popular among the early 1990s generation of computer hobbyists. Sun Microsystems' Java programming language tapped similar sentiments and rapidly became an important approach to software development.

But Macintosh, the internet and Java are now "mainstream" so it was high time for a new counter-culture movement to arise among computer

Linux is free, it works and is one in the eye for Bill Gates. That alone gives it a strong following. It is also, to date, the preserve of computer nerds. The challenge of getting Linux installed on a computer is a rite

In the Linux world, if you need to have a point and click interface on your computer, you are a Wimp (windows, icons, menus, pointer). Purists would rather type in Unix-style commands. The Linux "mafla" (as it calls itself) is friendly - so long as you share its passions. The Silicon Valley Linux User Group, for example, holds an "Installfest" once a month at which members help each other to set Linux running on their computers. There are also pub gatherings and all manner of dinner meetings, almost every day. Linux has become the latest excuse for geeks to gather and to decry the earlier generation of internet entrepreneurs who "sold

out" to capitalism. But the writing is on the wall. Hewlett-Packard, Dell Computer and several other big computer manufacturers now offer support for Linux. Red Hat and Caldera, two independent software ventures, are packaging Linux into commercial products. Linux is fast becoming part of the mainstream its supporters despise. In the meantime, the vast majority of PC users are probably better off sticking with Windows. They may not admit it. but the Linux crowd would prefer to keep it that way.

An item in the last Ragle Eve column complained that it was nearly impossible to buy a PC without paying Microsoft a

"Windows tax".
This has become the battle cry of the Linux community. Next week, Linux enthusiasts and others plan to hold a protest event, demanding refunds for the unused copies of Windows that came with their PCs, at the Silicon Valley offices of Microsoft.

At issue is whether PC buyers should have to pay for a Windows licence if they do not want to use the Microsoft software. The Microsoft "end user licence agreement" included with all copies of Windows (and new PCs pre-loaded with Windows) states that users must agree to its terms or "contact manufacturer for instructions on



Linus Torvalds: his Linux operating System is revered by disciples

return of the unused product(s) for a refund". PC makers have refused requests for refunds, the protest organisers say, so they are going direct to Microsoft. Thousands have already enquired about the Microsoft Windows Refund Day.

This might be a publicity stunt. but it is not without cause. How ong before the Justice Department takes notice? The irony is that Linux supporters may be playing into the hands of "the enemy" by proving that operating system market.

Internet telephony has been all talk and little action during the past year. But this week Networks Telephony

Corporation, a California start-up, launched services that may turn internet access providers into international lephone companies in a hurry.

NTC takes a radically different approach. Its "internet" phone calls will not go via the internet. Rather, it will route calls via the global networks of infonet Services, a data communications service. The difference is that roice - or data - sent via the internet encounters arbitrary routing decisions. When data are transmitted, this does not cause problems, but voice messages are more sensitive to delays, degrading the sound quality of

In contrast, NTC uses Infonet's deterministic" IP network, which routes traffic on pre-determined naths. It enables NTC, for example, to choose the cheapest route by directing a phone call to a telephone operator with which it has negotiated a good price.

NTC does not plan to get into the telephone business. Instead the company provides a turnkey service to ISPs to enable them to offer low-cost international telephone services. For ISPs struggling to differentiate themselves from competitors, that is an attractive proposition. For companies and individuals Who make a lot of international phone calls, IP routing may be a oig cost saver.

The test will be whether sound quality lives up to users'

regional ISPs are ready to take on the telephone companies on whom they themselves rely for services. However, NTC's use of a network that routes traffic according to cost or other priorities is the future. And, as technology is applied to the internet, traditional telephone companies will be forced to embrace internet telephony, or will have nowhere to hide.

internet stocks may be overvalued, but how often have you regretted missing the boat on Microsoft, Yahoo!, eBay or any of the high-tech high-fliers? Paul Deninger, chairman and chief executive of Broadview International, the mergers and acquisitions experts, suggests a lower-risk investment strategy. Trying to be a genius by picking rinners in the internet sector is a mug's game, he maintains. Better to focus on a new segmen - perhaps internet auctions or internet customer service and to invest in all the companies that offer shares to

the public. Broadview's research shows that only 51 per cent of high-tech companies that went public in the US during the past six years are now trading above their initial offering price. So the bet is that one or two companies in a market segment will pay off. compensating for those that fall

by the wayside. But what if the whole segment is a dud? (Remember push technology and pen computers?) It may not require genius, but ome critical analysis still goes a

Share your views in the Engle Rye discussion group on the FT web site (www.FT.com) or contact Louise Kehoe by e-mail on



INFORMATION TECHNOLOGY The FT's review of Information Technology appears today and on the first Wednesday of each month

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All eyes on the mega-merger integrator

DaimlerChrysler's new head of global executive development

explains his strategy to Haig Simonian

Outside Daimler-Benz, Andreas Renachler's name means little. Even in the motor industry, his reputation as the man who helped to devise, and then implement, the German group's move into sports utility vehicles at a plant in Alabama barely stretches beyond

But Mr Renschler, a fasttalking 40-year-old, is about to change gear. In a world moving to ever bigger cross-border mergers and acquisitions such as last year's takeover of Chrysler by Daimler-Benz, he is the first of tors". Last month, he was appointed DaimlerChrysler's head of global executive management development. He will oversee the careers of the top 2,000-3,000 bosses and try to avoid putting round Americans in square

German slots. "A big thing in our company was, and will be more in future, to find and develop the right executives," he says. While both Daimler-Benz and Chrysler had managers charged with such tasks, Mr Renschler will be pivotal in developing a new breed of man company since 1988, Mr Renexecutives for the merged group. "It will be my job to identify top positions around the world

agement training and development process," he says. That will make him decisive in suring that one of the earliest of the recent mega-mergers does not end in cultural catastrophe as executives from Daimler-Benz and Chrysler fight it out when

and to supervise the overall man-

integration begins in earnest. Mr Renschler, who has worked as an assistant to two former chairmen of the German group's Mercedes-Benz vehicles subsidisry before spearheading the M Class, does not minimise the challenge "I will be doing something that will really help us create DaimlerChrysler." But he recognises that a relatively young German could also face big credibility problems in such a itive role

ticularly taxing as integration moves from theory to practice, he dmits. After creating more than 100 integration teams to discuss how DaimlerChrysler could extract the \$1.4bn (£850m) savings it forecasts in short-term

synergies, the emphasis in 1999 will be on implementation. That is likely to cause disappointment and anger among the many executives Mr Renechler

calls his future "customers". "You're certainly going to hear some rumours," about the marriage hitting the rocks, he forecasts. "What we need is a constructive discussion. There will

be conflicts." It will be up to Mr Renschler and his team to smoothe the differences and prepare appropriate career paths for all.

His first task is to get to know his future clientels. That will require almost as much effort at Daimler-Benz as at Chrysler. Although employed by the Ger-

'I will be doing something that will really help us create DaimlerChrysler<sup>a</sup>

schler's past six years have been spent largely in the US. His last big task in his old job

was to study how to boost M Class production to meet soaring demand. That involved initiating additional output at an Austrian plant. Once the idea of a shared factory was agreed, co-operation with Chrysler on production and logistics was inevitable.

In his new role, Mr Renschler expects to divide his time between Daimler-Benz's base in Stutigart, Germany, and Chrysler's headquarters outside Detroit. "Realistically, it will be more like 25 per cent Germany, 25 per cent Detroit, 30 per cent at operations abroad and the rest in aeroplanes - at least in the initial phase," he predicts.

He wants to be seen as representing Daimler-Chrysler, not Daimler-Benz. To establish credibility, he says, his new team will feature Chrysler people as promi-



Remotion: will be wetched in Picture: Mike Oakley

nently as Daimler-Bens's Germans. "I have to work to get to a point where people can trust us." Mr Renschler's relative isoladeveloping the tion M Class may be an advantage and is probably one reason he was selected for the job. His time in Alabama has given him an image of relative independence. Mr Renschler says the idea for the job came directly from Jür-

gen Schrempp and Bob Eaton, DaimlerChrysler's joint chairmen, reflecting the importance they placed on executive development and general cultural crisis management. What looked like an interesting proposal turned into a fait accompli when Mr Schrempp announced the move to DaimlerChrysler's top 300 executives last month.

Yet he appears to relish the challenge. "I already have a track record in team building," he says. With speed and experience essential in getting the new vehicle into production, Daimler-Benz trawled wide to hire managers for its new plant. "At Tuscaloosa. we had people from every car company in the US. Everyone brought their own 'packages' with them, based on how things were done at Nissan, Toyota, Ford or wherever else they had

"What I learned was that it was not so much a question of culture. There are differences, of course. But you can only do business well one way. And it worked. Today, the only differences you can hear are people's funny accents."

Forging the same spirit at DaimlerChrysler will be much tougher.

Whatever his progress, one thing is sure. With crossborder mega-mergers becoming a fact of life, Mr Renschler's efforts to integrate executives and develop careers at Daimler-Chrysler should guarantee him a much Wider audience at other merging multinationals than any-

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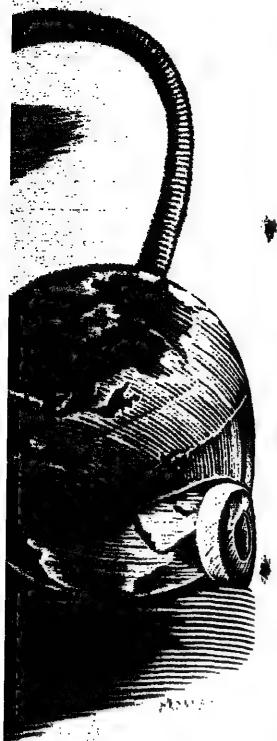
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competitions all over the world. America, Finland. Russia, Bulgaria, France host contests - there is really no other word for them - in which young (or young-ish) professionals spin themselves into the ground in such venerable showpieces as the Don Quixote duet, almost boring holes in the stages with multiple pirouettes and certainly boring the viewers, in the hope of medals and, more especially, the chance to win acclaim and work. Artistry comes second to mechanical proficiency, though phenomenal gifts can be recognised -Makarova, Semenyaka, Baryshnikov were once successful contestants in these dance Olympics. And, in Lausanne, there is a different competition, held annually at the end of January (it is in its 27th year) whose concerns are with helping

young dancers become bet-

er dancers. It is, unlike the

whizz-bang circus of interna-

tional spinning, more sober and more rewarding. The Prix de Lausanne is dedicated to helping dancers who are in the final years of their studies. Its purpose is to select the gifted and enable them to receive extra study at some of the most elebrated ballet schools in the world. A new award this year will pay for winners to pend a year as an apprentice with major compan our Birmingham and Lon-don Royal Ballets, troupes in Hamburg, Stuttgart, San Francisco, Copenhagen, Monte Carlo, among others working, dancing. It is this sense of service to the art, to meeting the real needs of the young who hope to make careers in the theatre, that gives Lausanne its particular cachet. For a week, the aspirants - 96 boys and girls this year, from around the world are given class, counselled, coached. And weeded-out, so that in a semi-final some 40 of them dance a classical solo and what is called a "contemporary" number, and in the grand final a last selection of 15 repeat these solos, add a solo of their own choice, while a jury of 11 distinguished teachers and dancers decide on the awards. The semi-final and final are held in public in Lausanne's Théâtre de Beaulieu, and the final (and its closing dance performances

watch as to dance, it took all of my goodwill to sit through the "contemporary" variations - more notable for their lack of variety and interest - some 50 times. It is difficult for the layimportant teaching is to: dancers, from their very first steps as spaghetti-limbed tots to that last morning class before retirement. We know who dancers are from who their teachers are. Schooling shapes them, decides their fates. Great teachers make careers think of Pushkin's influence on Nureyev - and bad ones deform talent. And Lausanne's value resides in recognising this, so that teachers from around the world congregate there to assess pupils, recruit for their schools, view - beady-eved -

by previous winners of the

Prix) is transmitted live by

Swiss television. All very

exciting, well planned, gen-

erously funded, redolent with hope - and simost as

exhausting (l'à venturé) to

ing their legs into "six o'clock" positions that distorted their entire frames. (What Mile Guillem does is right for her, but not for still inexperienced bodies.) For their test pieces, the young are asked to perform brief variations from the classic repertory - in the main, far beyond their competence - and then must bluster through a "contemporary" . solo. These I thought uniformly fearful and a danger to life and limb. A decently trained audience talent spotted - authority; she took the stage

**BALLET PRIX DE LAUSANNE** 

awarded. As a general obser-

vation I felt that among the

girls the use of their feet was

ess than interesting - too

little control, too little sup-

pleness - and it was odd to

see (during a short but admi-

rable class by Christine

Anthony that preceded the

final) some of the girls kick-

ographer may make in a company; these obligatory lottery win. I did, though, ess that trisson of Internal solos made the children look foolish. It would be far better in the semi-final when a young Spanish girl - Clara to require the contestants to perform a second solo from some established dancework started to dance the first act of the past half-century. variation from Giselle. She So we watched a series of was small, still with a trace Aureras and Albrechts and of puppy-fat, but she created an imaginative world (which Raymondas and Basilios strutting their stuff, very was Giselie's) and inhabited tender, and very serious in it, pouring out the dance concentration, and then with sweetness and an innopicking their way through cent ease, offering delicious the mire of the modern pirouettes and finesse in pieces. (An added hazard musical feeling. In the final, was the free choice of solos she seemed even more that the finalists were assured and her choice of a second solo was from Vagaallowed to dance these were of malign awfulness and nova's Diana and Acteon. merited prison sentences which conveyed the same rather than performance.) feeling of delight in the And, of course, we in the dance itself and a nascent

Young stars of tomorrow

Clement Crisp watches a group of dance hopefuls compete for a chance to shine

Prix d'Excellence was not young classical dencer can longing for the flash of by right, I hope she will have

soon adapt to whatever con-

temporary demands a chore-

genius, yet knowing that a a splendid career, and I want baby Baryshnikov or a little to see her Giselle in five Makarova was as likely as a years time. As the jury deliberated, an hour's performance by previous Lausanne laureates brought some choreographic mayhem but a Blanco Casquete, aged 15 - notable prize for the audience in the dancing of Pascal Molat (of the Monte Carlo Ballet) who gave to Balanchine's Tchailwosky pas de deax a joyous bravura that marvellously illuminated the choreography. And then the prizes, and the young dancers looking shy and happy amid the applause. Lausanne has provided a splendid and serious boost to their careers ~ and they deserve it.

de Lausanne comes from

# An endearing slice of musical comedy

IAN SHUTTLEWORTH

Planes & Marris Similogham Repertory, UK

Sneaky. Canadians Ted Dykstra and Richard Greenblatt realised back in their late teens that they lacked the talent or the application to make careers as classical pianists; they make adequate hivings working in theatre; but they are now pre-eminent in the field of theatrical shows about their failure as classical pianists. 2 Pianos 4 Hands - a

Canadian and off-Broadway smash, now redirected by Jeremy Sams for British audiences — is a kind of cartoon autobiography of their parallel experiences (Dykstra in Edmonton, outside London, Greenblatt in Montreal), from their earliest days as dumb seven-yearolds knowing nothing about key or time signatures until their respective rude awakenines a decade later.

The stage is bare except for a couple of grand pianos; the performers play numerous roles each, but remain in their formal concert schmatte throughout. The narrative emerges from the chronological arrangement of the intertwining sketches - this is an amiable enter-

tainment rather than tional blackmail by a dealfull-blown drama. The snub- making parent or the unexfeatured, mop-haired Dyk- pected nudge-nudgery of the stra is a more natural, more eager comedian, ready to the adolescent Greenblatt to mug horrendously or throw play his arpeggios himself into ludicrous one-handed because it himself into ludicrous shapes, but the moon-faced Greenblatt keeps up with

him most of the time.

elderly tutor who instructs impresses the chicks.

In contrast, the scenes in Perhaps inevitably, one of marily rejected by a classical

The laughs of recognition are many and warm: even those of us who were never coerced into day after day of childhood music practice are familiar

with events and character types

the scenes consists of a onepiano, four-hands duet-cumunarmed-combat routine (not quite as violent as that performed by comedians Miles & Millner in the early Nineties, but not far off); in contrast, the finale is a straight rendition of Bach's D minor piano concerto.

are many and warm; even those of us who were never coerced into day after day of agonising childhood music practice are familiar with events and character types such as the slyly probing conversation between rivals in a competition, the emo-

conservatory and a "jazz fac ulty", although fictional, are truly harrowing. (Greenblatt here pulls off the feat of playing "My Funny Valentine" in a style that is audi-bly "white" and classically influenced without ever veering into parody.)

It all makes for an endear The laughs of recognition ing 90 minutes, and the presence in the press-night audience of at least one senior West End booker suggests that this Birmingham run will not be the last that British audiences see of Dykstra and Greenblatt

# Uncomfortable rewrite lacking a tenor lead

**William Weaver** sees an ill-at-ease 'Werther' at the Met

In 1902, a decade after the the impression that the pro- occasion) second baritons Werther in Vienna, the great baritone Mattia Battistini approached the composer and suggested he recast the tenor title role of the opera for the lower male voice. Massenet complied, and during the latter part of his long career Battistini occasionally appeared as Goethe's young hero; he sang, it

eems, always in Italian, and also in Italian - he recorded two Werther arias. interwoven with echoes and Kabanova - Werther unfolds score was never published and was virtually forgotten. Graham something of a sneuntil the Seattle opera

revived it a decade ago. Now the Metropolitan is offering the 1902 redaction of Werther as a vehicle for its star baritone Thomas Hampson; but, curiously, Hampson does not seem quite at ease in the role, vocally or dramatically and the result is unhappy - a Werther without a Werther. On the basis of a single hearing, one would surmise that Massenet did not put himself out much with this revision. The rewriting of the tenor's music seems to consist mostly of replacing high phrases with lower ones. paying little attention to the efficacy of the recast lines. Thus unforgettable phrases, like "O souffle de printemps", leave the listener and, it would seem, the interpreter - cold. Indeed,

the listener familiar with -

lot of wrong notes. Inevitably, the conclusion is that Werther is a tenor, and even a fine baritone cannot capture the youthful, lyrical elan of the original Rather than tender, Hampson often sounded hortatory. A pity, for the rest of the

cast was fine, and the Metropolitan orchestra played sensucusly under Donald Runnicles. This lovely score, all cialist in French music, achieved genuine tragic stature in her great scene in Act III, but never allowed the destructive passion of her character to mar the warm beauty of her singing. Michel Trempont was an idiomatic

premiere of Massenet's tagonist is simply singing a Christopher Robertson made Albert into a rounded. human figura. Joyca Guyar's Sophie was less fluttery than some interpreters of the part and much more affecting.

The production - directed by John Cox and designed by Rudolf Heinrich - has been around for a while, but is still remarkably fresh, delicate, cogent. One of the few bourgeois operas - along with Onegin and Katya The baritone version of the memories, unfolded like a in a world of garden chairs rich, seamless fabric. Sugan and café tables and passers-by. Cox. without a lot of Zeffirellian fuss, sets the tragedy firmly in its context of quotidian activity. The return of this opera and this staging is a welcome event: now the Met has only to find a suitable tenor.

> Bailliff, and the (on this Mistropolitan Opera, New York

> > Tilson Thomas in works by Ives,

Mendelssohn and Prokofiev, with violin soloist Gil Shaham;

Chagall, Kandinsky, Malevich and

exhibition exploring the artistic

important loans from the State

decades of this century. Includes



and fond of - the opera has Susan Graham as Charlotte and Thomas Hampson as Werther

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#### INTERNATIONAL

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This year's crop of aspirants

**AMSTERDAM** 

OPERA

Netherlands Opera, Het Muziektheater Tel: 31-20-551 8911 Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast Includes Carmen Oprisanu and Martin Thompson; Feb 3, 6, 9

BERLIN CONCERTS Kontaribata Tel: 49-30-203090 Berlin Symphony Orchestra: conducted by Eliahu inbal in works by Liszt, With mezzo soprano Doris Soffel and planists Donald Sulzen and Enrico Pace;

Feb 6 Deutsche Oper Orchestra: conducted by JET Kout in works by Brahms and Bartók, with Nano soloist Garhard Oppitz Feb 3

Tel: 49-30-34384-01 Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a taging by John Dew; Feb 4 Manon: by Massenet.
 Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Feb 5

BRUSSELS CONCERT Palais des Beaux Arts San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Ives, Canteloube and Prokoflev, with soprano Christine Brewer,

FORT WORTH EXHIBITION Matissa and Picasso: A Gentle Rivalry. More than 100 paintings, sculptures and drawings on loan from collections around the world make up this first-over exhibition devoted to the relationship between the two creat modernists; to May 2

FRANKFURT CONCERT Alte Oper Tel: 49-69-134 0400 San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Barber and Mahler, with violin soloist Gil Sheham; Feb 6

**GLASGOW** OPERA

Theatre Royal Tel: 44-141-332 9000 Scottish Opera: Der Rosenicavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 6

HANOVER CONCERT San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Barber and Mahler, with violin soloist Gil Shaham: Feò 3

HOUSTON THEATRE Houston Grand Opera, Wortham Center Tel: 1-713-227 2787 www.hgo.com A Little Night Music: by Sondheim. Grant Gershon conducts a production by Michael Leeds, with a cast including Frederica von Stade, Thomas Allen and Sheri Greenawald; Feb 3, 6, 9

LONDON

CONCERTS Rarbican Hall Tet 44-171-638 8891 London Symphony Orchestra: conducted by Colin Davis in works by Elgar, Bartók and Beethoven, with violin soloisi Sarah Chang; Feb 3, 4 London Symphony Orchestrac

works by Beethoven and Elgar, with piano soloist Richard

Royal Festival Hall Tel: 44-171-960 4242 London Philharmonic Orchestra: conducted by Kent Nagano in works by Bartók and Berlioz, with viola soloist Yurl Bashmet; Feb 3 Roval Concertoebouni Orchestra: conducted by Riccardo Chailly in works by Brahms and Schoenberg, with violin soloist Vadim Repin; Feb 4

MUNICH CONCERTS Philharmonie Gasteig Tel: 49-89-5481 8181 Murlich Phillistmonic Orchestra: conducted by Fablo Luisi In works by Wagner and Liszt: Feb 3 Philharmonie Folkwang Essen: in works by Bach and Beethoven, with violin soloists

Nigel Kennedy and Peter Daniel; Symphonisorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray

OPERA Bayerische St Tet: 49-89-2185 1920 www.staatsthealer.bayem.de Lohengrin: by Wagner, Peter Schneider conducts a staging by Götz Friedrich, Cast includes

Waltraud Meier, Feb 3

NEW YORK OPERA Metropolitan Opera, Lincoln

Tel: 1-212-362 6000 www.metopera.org Moses and Aron: by Schoenberg. Conducted by James Levine in & stading by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson: Feb 8

**PARIS** CONCERTS **Salle Pleyel** Tel: 33-1-4561 6589 Orchestre de Paris: conducted by Frans Brüggen in works by Beethovers, Hummel and Schubert, with piano soloist Marie-Josèphe Jude; Feb 3, 4

EXHIBITION

Grand Palais Tel: 33-1-4413 1730 Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pisarro, Monet and Renoir as well as to Van Gogh, who famously spent the last weeks of his life with Gachet at Auvers-sur-Oise; to Apr 26, then transferring to New York

PERUGIA EXHIBITION

Tel: 39-075 574 1247 Besto Angelico and Beno220 Organised to mark the 500th anniversary of Fra Angelico's death, this show includes missing sections of his Polittico dei Domenicani, lent by the Vatican so that the whole, restored polyptych can be seen in its entirety; to Apr 11

ROME EXHIBITION Palazzo Venezia Tel: 39-06-841 2912 '700 Veneziano: Capolavori da Ca' Rezzonico. Display of 18th century Venetian art, lent by the Venetian museum to the Palazzo Venezia, which once housed the city's ambassador to Rome. includes works by Canaletto, Guardi, Longhi and Carlevarijs, and Tiepolo's fresco cycle made for his villa at Zianigo; to Feb 18

TOKYO CONCERT Suntory Hali Tel: 81-3-3584 9999 Japan Philharmonic Symphony Orchestra: conducted by Kazufumi Yarnashita in works by Hovaness, Takemitsu and Stravinsky: Feb 5

Orchestra: conducted by Michael

VIENNA **CONCERTS** Musikverein Tel: 43-1-5058 6810 San Francisco Symphony

SATELLITE BUSINESS TV CNN International Monday to Friday, GMT: 06.30: Moneyline with Lou Dobbs 13.30: Business Asia 19.30: World Business Today

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22.00: World Business Today

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the

MARTIN WOLF

# Off target

The US is against linking exchange rates. But Japan and Europe could still set ceilings on the yen and the euro

"Target zones and similar measures are no substitute for sound underlying policies and suffer from the defect that they could be pro-rather than counter-cyclical, thereby exacerbating, rather than countering adverse economic Rubin, Davos, January 30.

With these words to the World Economic Forum, the appeared to kill the notion of establishing a formal exchange rate regime between the dollar, the euro and the yen. The rejection does not preclude ad hoc intervention to deal with extreme volatility or large misalignments. But Mr long-held US position would appear to end the ambitions of some European and Japanese politicians for target zones.

Appearances are somewhat misleading. Establishment of target zones does not require US agreement. On the contrary, Japanese and European policymakers might find it advantageous to establish targets unilaterally. More precisely, they might wish to set ceilings for the yen and euro against the dollar. The idea is workable. It should also appeal to those European politicians who faar the European Central Bank's orthodoxy.

The difficulty in establishing a reciprocal exchange-rate regime among the three currencies is that they would need an agreed anchor for monetary policy. Consider a wide-band target zone regime of the kind recommended by Fred Bergsten of the Washingtonbased Institute for International Economics (FT, November 20 1998). Most of the time currencle would float freely. When

they reached their limits, however, there would need to be an acceptable and agreed basis for deciding whose policy was "too loose and whose "too tight".

Suppose an economy was in recession, with low interest rates. This is likely to weaken the currency (though any such statement about exchange rates must. be made with caution). If the currency then reached the floor of its band (suggested by Mr Bergsten at 15 per cent around a central rate), the country would be required to tighten policy, thereby worsening the recession, unless the strong

currency country were This, Mr Rubin rightly complains, could be "pro-cyclical". Since this is not a policy the US is likely to accept, it is safe to assume such a reciprocal target zone system will not

Yet even if such a target zone system is out of the question, a more one-sided one is not. Historically, the chief difficulty with running such a regime has come

when a currency is under attack. By contrast, a currency under upward pressures can always be kept down with a sufficiently expansionary monetary policy. For this reason, nees have tended to full whenever the anchor currency became too strong. This is what happened to Europe's exchange rate mechanism in the aftermath of German unification and to dollar

pegs worldwide after the

currency's post-1995

appreciation.

In the case of the yen and euro, however, the threat can be avoided by the simple expedient of not having lower limits. It is reasonable to assume the US authorities would normally take advantage of any inordinate dollar appreciation to loosen policy. Moreover, neither the ECB nor the Bank of Japan is at all likely to start an

inflationary spree. Thus there seems little need for exchange-rate floors. Ceilings on the appreciation of the ven and euro against the dollar are a different matter. An overwhelming argum

Price stability is not enough: Jepan in the 1990s C1 1890=108

deflation. The ECB's price stability objective may similarly prove compatible with stagnation. The fact that rates are historically low, as

output) of 10 per cent. Yet

has not suffered prolonged

despite this shortfall. Janan

be made for announcing a permanent ceiling to the yen-dollar rate. But at least a temporary celling to the euro's rate looks attractive.

The Japanese case is clear. Convincing the Japanese public that there is a celling to the yen's rate against the would be the single most effective way of eliminating the spectre of deflation. If that ceiling were set at, say, Y110 to the dollar (close to the current level), it would impose a lower bound on yen inflation in tradeable goods and services. Japanese nflation could not then be consistently below that in the US. This would make it easier for the Japanese unthorities to establish negative real rates of

What about Europe? The position of the ECB is that price stability is the sole goal of policy. Over the weekend, for example, Wim Dulsenberg, its president, argued that further interest cuts would be only be nstified by "persistently lower prices" - that is. deflation. In support, he noted that interest rates were at historically low levels. The proposition seems to be that monetary policy only affects economic activity via inflation, even in the short run.

Unfortunately, when

interest, if and when needed.

inflation is very low, it can also be sticky. Price stability is then quite consistent with many different paths for nominal and real demand. Look, for example, at Japan in the 1990s. A casual observer of the chart would conclude that the Bank of Japan had done a wonderful job, achieving almost perfect price stability since 1992. Infortunately, even as orthodox an institution as the International Monetary Fund has concluded that coincided with the emergence of a yawning output gap (difference between potential and actual gross domestic product as a percentage of potential

Mr Duisenberg notes, does not preclude this. After all inflation is also low. Indeed in core countries of the euro-some, it is virtually non-existent, giving short-term real interest rates

of 2-3 per cent. This seems high for a sound economy with a substantial current account surplus and high memployment, particularly one that is slowing down. The danger now is not just slowdown, but of a slowdown that will push the world into recession. Against such a

background, a threat by the

European finance ministers

to impose a celling on the

euro's rate against the dolla má at least á Sansible tactic. What is more the treaty establishing monetary union says that "the council. acting by a qualified majority . . . on a recommendation from the Commission and after consulting the ECB ... may formulate general orientations for exchan rate policy". So let the Commission make the recommendation. The ECB will protest furiously. But the ministers can, it appears override such objections - O agree to drop the proposal in return for an inflation target of, say, 2 per cent (perfectly consistent with price

A unilateral exchange rate ceiling can always be revoked. For Europe this would pose no problem. But, without the fruitless task of negotisting a reciprocal target zone system, the suro-cone finance ministers would be removing one of the world's more significant threats: encessive ECB complacency in the face of a destabilising slowdown in aggregate demand. The suggestion of an exchan rate celling might persu control bankers to econsider their position. It would be a beautiful irony if almost the first act of European finance ministers in the brave new world of the euro would be partially to subordinate the new currency to the dollar,

stability, plausibly

Martin Wolf@Leam

merely to bring an

overcautious (and

over-independent) ECB to

has again been "on the offensive" - i.e.

killing unarmed

civilians - in Kosovo, and

another humanitarian crisis

is looming. The US and

dering whether anything

short of military interven-

tion can make Slobodan Mil-

osevic, the Serb president, relent But what if the US

conclusions? What if this

time the Europeans, but not

the Americans, wanted to

intervene? Science fiction,

come may say. But imagine

it came true. Would Europe

have the capability to go alone? Probably not.

As Kosovo shows, the

peazi defence are two sorts of

"out-of-area" operations: the soft kind (humanitarian aid,

peacekeeping) and the hard

(peacekeeping). It makes

political and operational

sense for Europeans to count

on Nato for both kinds. As

Tony Blair the British prime

ninister, has said: "To speak

with authority, the European Union needs to be able

to act militarily on its own

when the United States is

not engaged." This is what Nato meant when it defined

its military assets as "sepa-

But Nato can be only a part of the solution. Sure, it

would allow the Europeans

to avoid duplicating many

assets, infrastructures and

command chains. Many, but

not all. Others, such as

long-range transport and sat-ellite reconnaissance, the

Europeans have to build

almost from scratch. And

they can afford to do it only

by pooling their resources.

Hence the urgency of a Euro-

If all then looks so rees

the verge of a major reshap-

ing of Europe's defence iden-

no similar reform has ever

the attendant sense of direc-

tion to guide successive gen-

erations of political leaders,

the appropriate institutional

pean defence identity.

rable but not separate".

and Europe came to differe

#### LETTERS TO THE EDITOR

#### Falklands' sovereignty not negotiable: we Islanders wish to remain British

Sir, I refer to your account (January 26) of the report in La Nación claiming that status of the Falkland Argentina is holding confidential talks with British of the Falkland Islanders. officials over the future of the Falkland Islands. This is about the concept of a sovera combination of overexaggeration and wishful thinking.

The governor of the Falk-land Islands has assured us that no talks are taking place between the two comtries, and that reports to the contrary are, in his words, entirely without founda-

We understand that the Argentine foreign minister raised the general question of sovereignty when he met Robin Cook, the UK foreign accretary, recently, but the UK government has reiterated that the UK position geous contacts with Chile

there will be no change of Islands without the consent We are highly sceptical

eignty freeze; although if the Argentines wish to make any such proposals they are of course free to do so via the UK government. But our position remains unchanged: we wish to

remain British and are not prepared to compromise on this. We are self-governing internally and economically self-sufficient in everything except defence, and intend to meet defence costs as and when we are able to do

so. The Falkland Islanders welcome mutually advanta-

will net stocks remains unchanged: sover- and other mendly countries eignty is not negotiable and in the South American continent and would lament the cessation of the Lanchile air service as a consequence of the Pinochet affair. How. ever, we do not wish to become dependent on Argenting for our economic future or our links with the outside world.

1 1 E 7 34

Our bottom line is that we cannot contemplate a normal relationship with Argenmaintains its wholly unhartfied claim to our land.

Sukey Cameron. UK representative, **Palklands Islands** government Falkland House. 14 Broadway. London SW111 OBH

#### Europe will acquire taste for junk bonds

From Mr Peter Marris.

Sir, There are many reasons why the European junk bond market is so much smaller than its US equivalent. They do not include the one that Lex cites (Jamusry

Leaving aside the telecommunications sector (no more than 20 per cent of the US market), junk bonds are generally issued in the US by companies with an estab-lished record of profits and nies that have an established London N5 2HD, UK

each flows. It is unusual for a company to issue a junk bond if it has less than, say, \$40m of EBITDA (cash operating profit). Tokheim, ited "menu" of financing which you mention, had \$72m of pro forma EBFIDA

in 1997 (and \$740m of sales). This is a long way from the "start-ups of risky new businesses" that Lex implies are the mainstay of the US funk bond market. Europe,

At present these European companies face a very limalternatives. Over time, many of them will come to realise that the bond market represents an attractive addition to that name.

Peter Morris. 49 Balfour Road,

#### Beggar my neighbour replayed in the 1990s

Sir, Pani Krugman 's Per-

sonal View ("Japan heads for the edge", January 20) and several subsequent letters have supported the idea that the way for Japan to deal with its serious recession is to undertake monetary expansion; even, if neceesary, by printing money. Itali mto in 1907.

That would, of course, drive value of the yen, thereby large current account sur- aware of that history. plus and causing problems for other countries, especially Japan's Asian neighbours that are trying to recover from the crises they

down the foreign exchange beggar-thy-neighbour poli-value of the yen, thereby cles of the 1930sl One would increasing Japan's already expect Prof Krugman to be

> guest scholar, The Brookings Institution 8502 W. Howell Road, Betherda, MD 20817, US

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#### PERSONAL VIEW JOSEPH STIGLITZ PERSONAL VIEW EMMA BONINO

# Weightless concerns

How should governments regulate the production of knowledge? What policies will best encourage technologies to spread while defending intellectual property rights?

under way in the developed countries, with knowledge and information industries now complementing goods as driving forces of the economy. Internet research has joined metalbashing, information processing accompanies resource extraction, and the manufacture of physical side with the production of "weightless" knowledge.

lutionised our societies, changing the way we work, study and play. But the implications of these changes for public policies

Knowledge differs from ordinary goods, and a knowledge-driven economy policies. For instance, strong protection of property rights where actors compete over goods; where, for example, more jam for me means less jam for you,

the third US president, wrote, more knowledge for me does not mean less knowledge for you; I can light my candle from yours without extinguishing your candle.

A knowledge-based econ-

lenges. Knowledge and ideas are contagious. They have powerful spillover effects. often spreading like fire and triggering further innovareactions of new inventions. Transistors, computers, by innovators building on the work of other innovators, each of which earned only a fraction of their invention's value to the world economy.

ge – do not always spread like fire, and their potential spillover effects are the market. By failing to dis- net. tinguish between stimulat.



Power of knowledge: cloning, Dige Dolly here, will transform society

To cite another example, while it makes sense for governments to leave the private sector to itself in mak-

ing better fishing nets, there is room for governments to promote innovation on the internet, where the scope for positive knowledge spillovers is so far-

credible job of identifying to carry an idea from con-areas for support that have ception all the way to transformed our world. In

policies have ignored such leader in basic and applied research, its government has now taken up the policy challenge posed by the infor-mation revolution, with the Department for Trade and Industry's recent White Paper. Our Competitive Future: Building the Knowledge-Driven Economy.

In a knowledge-driven economy, innovation must grow from an occasional burst to a steady stream able

#### Knowledge-driven processes are changing the nature of

competition . . . a very few winners often take all in one large market

the 19th century, the US government's support for gricultural research helped boost productivity, thereby laying the foundation for the transition from an agrarian to an industrial economy. Telecommunications services have developed with public sector support since their inception. Governmentfinanced research was vital constrained by the laws of to development of the inter-

From Newton's mechanics ing production of potato to the DNA double helix, and

modernising and strengthening higher education in science and technology but building bridges between the ivory towers of academia and the bustling world of entrepreneurial start-ups, to create Silicon Valleys of the future.

Knowledge-driven processes are changing the long-term, integrated way nature of competition. instead of many local, overlapping and genuinely competitive markets, the game chips and computer chips, even to cloning sheep, the has shifted to one in which a The author is chief of some misguided government. United Kingdom has been a very few winners often take of the World Bank. has shifted to one in which a The author is chief econo

all in one large market. Just as global communications networks have created celebrities who are "famous for being famous", so too can an information-based product apread across a network of computer users, and be locked in as "the standard because it is standard" even if it is not the best product

This raises new challenges for the drafting and enforce ment of competition regulations: the current Microsoft case in the US is exploring this unfamiliar terrain.

Intellectual property rights are essential if there are to be private incentives for the production of knowledge. But the design of intellectual property regimes requires careful attention. Excessively broad protection can stifle competition and slow the pace of innovation as well as impede an other wise low-cost spreading of knowledge (as in Jefferson's candle-lighting metaphor). Until recently, the received wisdom in eco-

on building infrastructure and factories, a strategy we now see as seriously incomplete. The World Bank has moved in this direction, with its recent World Development Report on "knowledge for development", and with its continuing evolution into a knowledge bank". This recognises that the gap separating the developed from the developing world is caused not only by uneven access to capital but also by

uneven access to knowledge. Both developing and developed countries share this challenge of creating and nurturing knowledge-driven cultures of innovation and change. The global information-driven economy affects them all, and all must work together to establish policies to guide it in a that goes beyond all previous efforts at global gover-

# A single European army

Now Europe has Emu, it should try for DMU - defence and military union. The smooth launch of the euro shows how it can be done



Time to act: the EU cannot rely on Nato forever

framework to work toward that goal, monetary union is a case in point. Ten years ago, the very idea of Emu was still under the scrutiny of a committee made up of 12 central

bankers and three independent experts, all under the chairmanship of Jacques Delors, the then president of the Commission. The committee came up with a threestage plan for Env., adopted Council in Madrid; the first stage started on July 1 1990. The ultimate goal of full monetary union was enshrined two years later in. the Maastricht Treaty. But European governments remained firmly in control throughout the whole process, and from one stage to

This process needs to be rerun in the realm of RU Common Foreign and Security Policy (PESC, from its able and feasible, are we on French acronym). Under the EU's Amsterdam treaty, the European Council could protity? The answer is no. For vide a mandate to the newly appointed Mr or Ms PESC been achieved on the old and to the president of the continent without the follow-European Commission to ing three things: a firm comoversee a replay of the mitment to a final goal, how-Delors committee on Emu ever distant in the future: include the 15 military chiefs of staff and senior diplomats from member states and diplomats and bureaucrats; independent experts. If the

committee chose to follow

the Delors model it could recommend a similar multistage plan, stretching over lomatic and Military Union, or DMU.

Like the Emu model, tha

first phase could be devoted to the strengthening of diplomatic and military cooperation, making use of the instruments already contained in the new EU treaty - such as the policy planning and early warning cell. In the second phase something similar to the European Monetary Institute (the precursor to the European Central Bank) could be set up, both in the military and in the diplomatic realms. In the third and last phase, both a European army and a European diplomatic corps would see the light.

As with Emu, the process would be overseen at all stages, and ultimately be decided upon, by member governments. In this sense, the council of finance minis-

The committee would be met with a deluge of scepticism. But so was Emu until a few months ago. Many will

foreign and security policy they want to pursue. But again, look at Ronn: it led to the creation of a European one policy prescription, price stability. And when the bank was only weeks away from taking over the monetary policy of its 11 members, crucial policy decisions had still to be worked out. To meet a central British

concern, national armies and

disappear. As is the case with the relationship between national central banks and the ECB, a practiout. There will be considerable wrangling over the length of the multi-staged period to phase in a full DMU. But from the Delors committee to the actual circulation of euro notes and coins, it will have taken Europe 14 years to achieve a full Emu. In between we had referendums and opt-outs, all sorts of doubts and second thoughts. They will certhen again: in spite of everything, the euro is now flying.

Finally, many will object that once you have a military and diplomatic union union, viola!, you also have a federal Europe. I studiously avoid the term, since it tutional dilemmas, first of all the powers of the parliament, the executive role of the Commission, and on and DMU would be achieved and on along an endless list on which tons of very controversial pages have been writn. Whatever one wants to call such a Europe, though, two things are sure: that on the global scene it would have the authority all its member states presently the British idea of creating a lack and that Tony Blair, the council of defence ministers UK prime minister, is rightly is particularly useful, as calling for, that no one could there is yet no military coun-honestly claim to have been terpart to the role played by rushed to such union. Imagine 9015 as the deadline for a full DMU: it will be 70 years The whole idea will surely from the end of the second world war. No rush indeed.

say that before setting on for fisheries, consumer policy the course of DMU, inter- and the European Commi ested EU members need to nity Humanitarian Office

Jame auditor

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## THE EDITOR

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America. The president's room for manoeuvre is limited. Yesterday's announcements of new tax measures are an encour-Mary Mary Mary and the -

# FINANCIAL TIMES

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Wednesday February 3 1999

# The good news about net stocks

is the internet share frenzy good provide the creative chaos that or bad? To anyone who views these still mostly profitless companies as hopelessly over-valued, that might seem an odd question. Unsustainable valuations in

any sector are surely dangerous. After all, if US investors suddenly lost confidence in the current level of the stock market. the consequences for the world economy might be significant. But although internet companies are by far the most exagger-ated beneficiaries of America's

booming stock market, they should be seen as a special case, It is one we have seen before. Every big innovation – railways, electricity, cars, electronics, biotechnology - has produced a huge surge of investment. Few of these hopeful companies fulfil their promise - although; as Alan Greenspan, the US Federal Reserve chairman, said last week, the handful that do are

often hugely successful. But the failure of the great majority of such projects does not matter. Bill Gates of Microsoft, himself deeply sceptical of current valuations, made the point last weekend. "At the core of it, the internet is a real thing," he said. The flood of capital into the sector, spurred by high share prices, benefited consumers and the economy. "You've got to feel good about it," he said, "even if all the investment has a very low

More broadly, this may be part of America's role in the world; to will know.

allows us to leap ahead in technology. Such surges of investment have have two consequences. They provide those companies - mostly US-based and owned - that survive with an unassailable technological lead. But in a neat twist of natural justice, they benefit all consumers everywhere, at the

expense of US investors. These narrowly focused waves of investment are in a different category from the structural over-investment that has caused such problems in Japan and Korea. And a frenzy in a particular, rapidly growing sector is not the same as systematic overvaluation of all financial assets.

Those who believe that US financial assets in general are dangerously over-valued fear that a collapse in internet stocks might spread more generally. That is certainly a risk. There is some comfort, however, in the fact that the really exaggerated values are found mostly within the high-tech sector. The broader market is not quite so dangerously stretched

The risks the frenzy poses are therefore probably manageable, through sensible steps such as the higher margin requirements recently set by online stockbrokers. If the short-term risks can be navigated safely, there are long-term benefits to technology manias – 22 anyone who rides on a train or switches on the light

# Tame auditor

Lybrand could have offered for failing to blow the whistle on the late Robert Maxwell would have been that the plunder of the Maxwell group pension funds took place only after the relevant audit reports had been signed. The long-awaited verdict of the accountancy profession's joint doubt that blame cannot be so

easily side-stepped. Mr Maxwell died in November 1991. Yet the complaints about the quality of the audit work, which are not contested by the firm or the partners concerned. go back as far as the 1988 audit. Had Coopers reported properly on early transactions that pointed to misuse of pension. fund money, the £400m deficiency of assets that emerged on the tycoon's death might have been

considerably les Why then, has this disciplinary process produced such a modest set of sanctions? Costs and fines of 13.5m are not, after all, much of a burden for a top accountancy firm which has been growing diszily thanks to emanding non-audit fee income. Nor do the censures and admonitions visited on four individual partners add up to much while they remain partners in a firm that has now. merged with Price Waterhouse.

Moreover, the snail-like pace of the inquiry has meant that the pressure on PcW to take action.

been overshadowed this year by

the Brazilian crisis, but the

health of Latin America's fourth-

largest economy continues to

deteriorate. Unless Hugo Chavez,

the country's new left-of-centre

mally yesterday, quickly demon-

strates a more comprehensive

commitment to macro-economic

stability, the country's slow

External pressures have grown

since Mr Chávez's comprehensive

election victory two months ago.

The price of oil - which gener-

ates up to 50 per cent of govern-

ment revenues - remains

depressed. The turnoil in Brazil

has made it more difficult for all

Latin American countries to bor-

row on the international capital

Since the beginning of the year

the interest rate on Venezuela's

international bonds has risen by

more than I per cent to above 19

per cent, making it more difficult

for the government to raise fresh

As a result, austerity will need

to be even tougher than the

incoming government would

have expected. Venezuela this

year faces a fiscal deficit equal to

9 per cent of its economic output,

one of the highest levels in Latin

decline will continue.

markets.

ident who took office for-

Chávez's task

Venezuela's difficulties have aging start, but his proposed

The best excuse that Coopers & against those concerned is much reduced. It is too easy to declare that this is water under the bridge and that procedures have long since been tightened up.

> The case for leniency, it seems, rests on the fact that Coopers did not actually cause or contribute directly to the collapse of the Maxwell empire or cause direct financial loss. Curious argument since when have auditors been able to wreck large business empires? And from the Maxwell pensioners point of view, was it not devastating enough that the auditors failed to prevent their potential losses from secalating?

Here, after all, was a man who had been declared untit to run a public company by Department of Trade inspectors in the early 1970s. Yet the joint disciplinary tribunal identified a lack of object tivity in Coopers' dealings with the Maxwell companies. The complaints against the auditors revealed "shortcomings in both vigilance and diligence and a failure to achieve an appropriate degree of objectivity and scepticism" that might have led to earlier exposure. The pensioners in the Maxwell empire were entitled to expect better than that.

Much has been done over the past decade to improve the quality of accountancy and audit. But the reports on the Maxwell affair by the profession's senior watchdog still leave a nasty taste.

clean-up of tax and customs eva-sion will not yield dividends in

the short term. Many of his own

political supporters on the left

and in the trades unions will

oppose cuts in public sector

In addition, while controversial

constitutional reforms are at the

top of the new president's politi-

cal agenda, he has been sending

out mixed signals to investors

about the future direction of eco-

nomic policy. Last month, it

emerged that Maritza Izaguirre.

whose reappointment as finance

minister was welcomed by the

markets, would return to her old

iob at the Inter-American Devel-

opment Bank before the end of

the year. Important positions

such as the central bank gover-

norship have yet to be filled. Mr

Chávez's more radical economic

plans appear to have been quietly

dropped. And for the moment,

the president has turned down

the idea of seeking a standby

agreement with the International

Monetary Fund that would bol-

With investors increasingly

fearful of Latin American risks,

Mr Chávez must provide more

ressurance than would normally

be required. The announcement

of a clear economic policy and

the appointment of economic

ministers who will command

respect internationally are

urgently needed. .

ster economic discipline.

# Indonesia's surprise act

aybe I am the most stupid guy existing in Indonesia, save B.J. Habibie. "It's all right with me. The fact is that I'm the

A year ago, many people thought he would not be by now. In early 1997, the runiah crashed on the rumour that Mr Habibie, then a minister, was to become vice-president and probable successor to President Suharto.

Indonesian and foreign investors were aghast at the sugges-tion that this idiosyncratic aerospace engineer, known for his love of costly high-tech projects and quirky economic theories, would be just a heartheat away from running the biggest country in south-east Asia. They hoped he would prove just a stop-gap. . But Mr Habible is not only still in office, he has bolstered his authority and seen the rupiah strengthen. What he has not

done is allay doubts over his ability to deal with Indonesia's leep-rooted economic problems, When he took over from Mr Suharto last May, Mr Habibie surprised everyone with his more open approach to government. Political prisoners were released a new policy was adopted towards the festering sore of East Timor, and fresh elections were

promised. The pace of change accelerated last week, with new voting rules approved by parliament for a general election in June and a dramatic offer to give East Timor full independence. Yesterday the government unveiled proposals to give provincial administrations more power.

For a man regularly dubbed by diplomats as crazy before he entered office, it has been an extraordinary performance.
Mr Habibie's gesture on East Timor and electoral reform may be good news for those who yearn for change, but they also reflect the president's tendency

to act upon impulse, often aggravating indonesia's sense of insta-bility. He is, after all, the man who staggered his compatriots by buying the entire old East German nevy on an apparent whim. Suddenly, however, Mr Habibie's chances of survival are looking better. Many of his detractors now believe he has a fighting chance of winning the presidency, when an electoral college composed of the new par-

in November. Part of the resson Mr Habibie is being taken more seriously, despite his close ties to the old regime, is that no clear chalship. It is also true that eight months in power bave conferred upon Mr Habible some of the prestige of office. But there are also concrete achievements.

liament and 200 delegates votes

Since the rupish sunk to an all-time low of almost Rp17.000 to the dollar last June, Mr Habibie has presided over a sharp recovery in the currency, to around Rp9,000 to the dollar, on the back of strong export sernings. He has just about managed to hold together one of the most fragmented countries in the world in the teeth of a bitter recession. And he has shown remarkable nimbleness in steering between sindents' demands for democracy and the desire of the corrupt Suharto establishment to shield itself from scrutiny.

Before taking office, Mr Habible was not known for his ability to listen to advice. Here again he has confounded detractors by surrounding himself by a group of able advisers, who are now among his strongest supporters. His main allies are General policies, say Sander Thoenes and Peter Montagnon

Habibie has confounded his critics with his conciliatory



Wiranto, commander-in-chief of presidential thinktank, the armed forces, a group of smart Muslim intellectuals and the remnants of Golkar, the dominant party set up by Mr Suharto. Mr Habibie's success in wooing these groups is something of a surprise, considering that Indonesia's elite is largely a creation of of the crisis on the very poor. Mr Suharto and has long low students from his university days say that even then Mr Habible made himself unpopular by working his way into the position

of teacher's pet. "I thought we could get rid of him in three months, because he is such a dummy," says one of Mr Habibie's opponents. "But I underestimated the people around him. And I did not foresee that Wiranto would back him."

The new president's trick appears to be his willingness, surprising to those who knew him before, to listen and to give his ministers leeway in pursuing their own agendas.

That is especially important in the midst of an economic crisis. It is not known whether the president still believes in his bizarre "zigzag" theory, which calls for lower interest rates as an antidote to inflation. What is important is that he has not tried to put it into practice. "He lets people who know economics run the show," says Umar Juoro, economist at

On the advice of the International Monetary Fund, Indonesia has stabilised its currency through a rigorous monetary policy, and secured \$14bn of international aid to help finance a budget aimed at limiting the impact

The economy's free fall has resented the former president's halted. After shrinking by 15 per gross domestic product may be confined to around 3 per cent this

> 'I thought we could get rid of him in three months.

because he is such a dummy

year. Inflation is expected to fall to around 28 per cent in 1999 from 60 per cent last year, according to average private sector forecasts tracked by Consensus Economics. Non-oll exports are forecast to rise to \$45bn. while the fall in manufacturing output is expected to slow to 2 per cent. from over 18 per cent last year.

senior World Bank economist. but it was less of a disaster for the rural poor. The latter have benefitted from the end of a terrible drought and rising domestic prices for commodities

The collapse of the economy has hit the urban poor and the middle classes 'exceptionally a hard, says Richard Newfarmer, a

Whereas the Bank had initially worried that the level of poverty could double in the wake of the devaluation, its preliminary findings, still controversial in Indonof the population below the poverty line has risen by only three percentage points to around 14 per cent. The willingness of people to accept wage cuts has also prevented unemployment from rising sharply, Mr New-

farmer says. The survival of some pockets of prosperity outside the main island of Java, and the sense that things could have been even worse, help explain why Mr Habibie still has a chance of winning the presidential elections. He lacks a strong constituency, but would-be rivals are divided. The proliferation of political parties may lead to many of them failing to achieve the required 5 per cent of the vote to enter parliament. Mr Habibie's resilience is also a

product of the power vacuum created by his mentor, Mr Suharto, who quashed all potential rivals during his 32 year mile.

As a result, few politicians are in a position to challenge Mr Habible. Even fewer may want to, at least not until the economy

"The smart guys know it will still be a mess for quite some time," said Aristides Katoppo, a journalist, "They don't want to be too close to the hot seat."

Mr Habibie may be a successful compromise candidate for the same reasons he has survived to date. "On the surface Habibie's prospects would look slim. On the other hand there is no really strong charismatic alternative, says Michael Leifer of the London School of Economics.

That, in turn, helps explain why Mr Habibie agreed to early elections and now appears committed to a democratic vote. "Habibie's survival depends very much on how the elections are conducted," said Emil Salim, a former minister. "If they are not fair, he is finished. I think he knows that."

Success for Mr Habible, however, is not necessarily good news for Indonesia. Even if he does win the presidency in November, he might not be capable of delivering the strong lead-ership needed to bind the nation together. "He is a survivor but he has not solved any problems," said Yusuf Wanandi, a prominent political analyst and vocal critic of Mr Habibie. "He has divided this nation."

Mr Habible has taken only symbolic steps against corrup-tion, and he has ignored demands to put Mr Suharto on trial for abuse of public office. Similarly, he has failed to prosecute senior military officers for the killing of students, political activists and Muslim clergy last year.

He has also abandoned efforts to woo students and political opponents, who wield great influence over Indonesia's restless working class. "His power base is an inner circle club," said Emil Salim, a former minister. "That is dangerous."

Moreover, the recovery of the rupiah reflects a heavy inflow of aid funds rather than any real return of economic confidence. The government, inexperienced at devising social welfare programmes, has not yet spent the World Bank funds placed at its disposal. The government has been slow to devise new bankrupicy procedures and to clean up loss-ridden banks. Private sector investment is being put on hold until after the general election, while concern for the safety of the Chinese community, the target of violent riots over the past year, is another factor deterring a fuller recovery.

"The external position is vulnerable," says Hubert Neiss, Asia-Pacific director of the Intertional Monetary Between now and the elections he believes the central bank may be forced to raise interest rates to defend the rupish, although he does not expect this to aggravate the recession.

In addition, foreign investors are increasingly concerned about rising crime. Factory owners stand alone in facing hungry workers, villagers who frequently plunder plantations and warehouses, and indisciplined soldiers

who dabble in racketeering. How long Mr Habibie can continue to ignore these pressing problems remains uncertain. A wrong response, a backlash against the corruption of the Suharto era, or further outbreaks of violence, particularly if they occur during the election campaign, could dash the electoral chances of a man who was a crony of the former president.

if Mr Habible's chances have risen because the opposition is splintered, he has yet to prove himself a statesman rather than

#### OBSERVER.

#### Joining the rat race

They might be turning off the lights to save energy at Kuala Lumpur's new state-of-the-ert International airport - but the rats aren't bothered.

So far, more than 3,000 have been caught scurrying around the shiny new complex. The government insists there's little i can do as rats are commonly found in such locations and it w take time to get rid of them.

But that's not very comforting to the passengers who spotted ratus ratus sharing first class accommodation with them on a recent Malaysia Airlines flight to Australia. The pilot had to turn back because the pests have a habit of chewing through wining. Another plane was delayed 15 hours after a rat was spotted on board.

The government insists the problem isn't disrupting airport operations. But Lim Kit Slang, Malaysia's opposition leader, has other ideas. He's castigating the transport minister for running a rat-infested airport and reckons the job should be privatised. handing it over to anyone who can exterminate the unwelcome visitors. Passengers may be inclined to agree.

#### **Kicking out**

While General Augusto Pinochet languishes in his koury home in the English countryside awaiting the outcome of efforts to get him extradited to Spain, the Spanish judge pursuing him is keeping fit. Pinochet may prefer burying himself in books on modern warfare and Napoleon but Baltasar Garzón, a passionate Barcelona football supporter, has been practising his skills as a

goalkeeper when he's not

gathering evidence. Indeed, he's just proved himself a bit of a star turn in a charity match in aid of an anti-drugs campaign in the Catalan club's huge Camp Nou stadium. Watched by more than 60,000 fans, he helped a veterans team see off some attacking football by a "rest of Spain" contingent.

Apart from his abilities between the posts, Garzon is also thought to be an admirer of the chilena the name given in Spanish football jargon to the scissors lock. Pinochet already knows.

#### Name game

It sounded like a great idea at the time. What to call an organisation dedicated to promoting trade and understanding between two great nations? In 1983, when it was set up (and Japan had the upper hand in things economic), UK-Japan 2000 sounded suitably forward-looking, but it's about to look hombly out of step. So the mighty minds who run an

to both Japanese and British prime ministers, have been pondering a name-change. One option was simply to add a few decades onto the title but the organisation - which includes some of the biggest names in British business and politics -has gone instead for a fresh moniker. Arise the UK-Japan 21st Century Group. That should do for another hundred years.

#### Starr crossed

Americans have bought the video and the dress. Now there's another spin-off from the Clinton-Lewinsky affair - a musical. Word has it that work has begun on Starr Struck, an original musical about the According to internet gossip

rag, the Drudge Report, the musical promises a "witty, raunchy, intelligent, hilanous and surprisingly emotional look" at the case. But who will play the leading roles? Tricia Leigh Fisher is said to be getting in shape to take Lewinsky's part, and Michael Halpin is preparing to play at being president.

Observer feels a touch of stage fright coming on.

#### Make a date

Remember that useful little calendar of events that reminds you about International Left-Handers' Day and No-Shop organisation that reports regularly | Day? Well, it's somehow

managed to completely overlook one wildly popular occasion pencilled in for early April. According to Babyworld, the first UK-based pregnancy and parenting website, countless couples across the country will then be doing their bit to produce the very first millennium offspring. Babyworld says it's on hand to help parents plan for complete success and reckons couples will have to take advantage "of the small window of opportunity that exists" if they

Babyworld predicts a higher rate of absenteeism from work as enthusiasts "complete the task at hand." Wouldn't do in the office, efter all.

want perfectly-timed proceny.

Groundhog Days come and go. Sometimes on February 2, the critter in Punxsutawney. Pennsylvania sees his shadow, indicating a long winter; sometimes (as yesterday), he doesn't, presaging an early spring. But the big news yesterday was the timely demise of a rival Canadian groundhog. Wiarton Willie died, apparently

of "natural causes", shortly before his annual day in the sun (or shade). The show went on, after a fashion. Word has it a supine Willie could be viewed by the public - in a pine coffin: His paws were crossed, pennies were placed over his eyelids and he was clutching a carrot.

# Financial Time

#### 100 years ago Belgian Petroleum Monopoly

Brussels, 2nd Feb. In the Beigian Chamber of Deputies to-day M. Lorand made a complaint with reference to the monopoly enjoyed by a syndicate for the sale of oetroleum in Belgium. To meet this evil, he asked that public warehouses should be erected for the storage of petroleum. He also advocated the use of debased sprits of alcohol instead of petroleum, M. Leebaert, Minister of Finance, dwelt upon the difficulty of adopting such a course and added that he was not in favour of the use of debased spirits of alcohol.

#### 50 years ago

Mr. Truman And Stalin Washington, Feb. 2. The White House replied to-day to Marshal Stalin's new Invitation to Mr. Truman by referring once more to the President's recent statement that he would be willing to meet the Russian Premier, but only in Washington Mr. Charles G. Ross, presidential Press secretary, stated that no official invitation had been received from Stalin, nor had any direct word come from the Kremlin beyond what was contained in Stalin's statement to the Press.



# FINANCIAL TIMES

WEDNESDAY FEBRUARY 3 1999

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# Borderline cases

How soon before European banks discover the joys of cross-border mergers? It seems a silly question when there are still domestic deals to do. These are easier, take out more costs and do not trample on national sensibilities. They also work, Italian banks have doubled their return on equity in two years through mergers.

But domestic consolidation is a finite game. In small markets like Benelux, the well has dried up, forcing the larger banks to build cross-border "super-regionals". Now these are looking beyond Benelux for deals. Even in France, a larger market, the merger of Société Générale and Parihas is talked of as the nucleus of a larger

pan-European group.

But the problems facing pan-European consolidators should not be underestimated. Lloyds-TSB's return on equity may be 31 per cent against Deutsche Bank's 6 per cent, but not all that differential is due to management skill. Some of it is down to inflexible labour laws and market distortions, such as undercutting by stateowned entities and mutuals. These are things an acquirer can do little about. Lloyds-TSB shareholders would hardly welcome a deal that diluted their return on equity long term. Pan-European mergers are undoubtedly coming but remain second best. Only those whose home mar-ket is fully consolidated or wallflowers that have been left on the shelf in the national consolidation process have a real incentive to set the transnational ball

#### Time Warner

Stringing all that wire was worth it after all. Following years of investor scepticism, the true value of the broadband networks put in place by the US cable companies is starting to emerge. Take this week's deal between Time Warner and AT&T. The phone giant is paying up handsomely for the chance to bypass rival Baby Bell networks and sell telephony over cable television wires instead. Time Warner will receive \$300m (or \$15 for each of the 30m homes it passes) as a one-off payment, plus monthly access fees worth envelope with this issue. Asset securitisaa minimum \$360m a year from year six. tion has caught on with investors, but is And on top, it gets an equity kicker - a 22'; per cent stake in the new telephony company, to which Merrill Lynch attri- to the market's taste than Formula One -

cent of Time Warner's current market

those wires. The AT&T deal does not cover high-speed internet access or e-commerce. Given the continuous connectivity, fast speeds and quality of its upgraded digital cable network, Time Warner should eventually be able to turn itself into a leading internet service provider.

Meanwhile, the group's existing cable TV, media and entertainment assets are finally working cohesively, generating 15 per cent annual growth in operating profits. Even after doubling last year, the shares, at 15 times forecast earnings before interest, tax, depreciation and amortisation, have further potential.

#### Formula One

An serie allence has descended on the Formula One \$2bn bond issue. It is four months since the deal was announced with a fanfare but nothing has happened. Bernie Ecclestone, Formula One's founder, must wonder if the capital markets have it in for him. Having scrapped an initial public offering last year for a supposedly easier debt issue, he finds it the deal or is it him?

Mr Ecclestone was always pushing the still relatively new. Basic service industries with predictable earnings are more butes a net present value of \$5bn or 7 per essentially a vehicle for exploiting the

rights to televise motor races. Question marks over its ownership of those rights.

probe, have not helped.

But Mr Ecclestone has not made life easy for himself either. Formula One does not need the cash, which is destined for a family trust. This makes the issue look like an IPO by other means. Why should investors take an equity risk without an equity return? Morgan Stanley, Formula One's bankers, are still marketing the deal, but it seems special buyers will have to be found. Given the negative publicity surrounding the deal, these are likely to ask for price concessions. The question is: who will bear the cost of these, Mr Eccles-

#### Reckitt & Colman

Anyone would think, from the tributepaying press release announcing Vernon Sankey's resignation from Reckitt & Colman, that the sudden departure of a chief executive was normal. Clearly it is not. But the household goods company denied not only a boardroom row but even any heated questioning of Mr Sankey's performance. It may be that after seven years in the hot seat and 18 with the company, he was indeed tired and needed little pushing. It may even be to his credit that he has refused to brezen out a failure to

But a failure there has been, After refocusing the company and expanding in the US in the mid-1990s, Mr Sankey has flattered to deceive. Notably, double-digit earnings growth has proved elusive, even at the so-called "underlying" level - which has invited cynicism. Finally last November's profits warning made it clear that 1998 earnings would be down; 1999

Despite all this, Reckitt remains decent collection of international brands from Dettol to Disprin. It has rightly pushed into emerging markets, which should eventually deliver that precious growth. No wonder it is being talked about as a bid target. With an enterprise value of around £4bn, the likes of Unilever or Procter & Gamble could comfortably gobble it up. The puzzle is that - pace the caretaker - a vacuum has been created just when strong leadership is needed to extract the best value fast.

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# Albanian rebels agree to attend Kosovo peace talks

By Guy Dimmore in Belgrade

Ethnic Albanian rebel commanders in Kosovo province agreed yesterday to send a delegation to peace talks set to begin in France on Saturday. Nato warned the Serbian government would face air strikes if it

failed to join the negotiations.
"We are definitely going to the talks with our proposals," said Jakup Krasniqi, a spokesman for the Kosovo Liberation Army (KLA). He said the KLA would not give up its demand for independence. The

rebels would call for a referendum on Kosovo's final status at the end of the three-year interim period of autonomy proposed by western mediators of the six-nation Contact

oted overwhelmingly in favour of independence in 1991 in a referen-dum that Belgrade refused to recognise. A US draft peace plan for Kosovo leaves the issue of its final status vague, saying it would be open for negotiation with interna-

mons to the peace conference issued by the Contact Group - Britain, France, Germany, Italy, Russia and

The issue could also expose divisions within Serbia's ruling coalition. The ultra-nationalist Radical party is opposed to negotiations hald abroad. But, if a vote is held, the Socialist party, led by President Slobodan Milosevic, can muster a majority with support from the smaller monarchist Serbian Renewal

James Rubin, the US State Department spokesman, warned: "I think the Serbians will be making a big mistake if they doubt Nato's determination to use military power if

they fail to attend these talks."
Diplomats are confident that Belgrade will attend the talks, possibly sending a delegation of deputy prime ministers from the Serbian and federal Yugoslav governments.

be led by Bardhyl Mahmuti and Hashim Thaci, both political leaders

The KLA delegation is expected to

The Serbian parliament is set to of the rebel group based in Swinger-meet tomorrow to debate the sum-land. Divisions within the fragmented KLA were revealed yester day when its Kosovo-based representative, Adem Demaci, said he was opposed to the talks, which will take place at Rambouillet, a chateau near Paris.

Chris Hill, the US envoy who will be the main mediator at Rambouil let, warned of a period of "maximum tension" in Kosovo in the run-up to the conference. A spate of bomb attacks on Serbian and Albanian-run bars in the regional capital Pristina has added to the climate of fear in Kosovo, following the killing of at least 69 ethnic Albanians in raids by Serbian forces last month.

Both sides are likely to raise strong objections to the Contact Group peace plan, which blocks the way to independence while, in effect removing the Serbian government's authority over Kosovo and giving sweeping powers to the head of the international monitoring mission

# S Africa bank governor may face tribunal over Bankorp

Chris Stals, governor of the South African Reserve Bank, and senior private sector executives may be summoned to appear before an anticorruption tribunal that will try to recover R1.12bn (\$185m) used to bail out the Afrikaner-controlled Bankorp in the late 1980s and early

. The Heath Commission, an anticorruption unit headed by Judge Willem Heath, has concluded that the Reserve Bank, Absa (a bank which bought Bankorp in 1992) and Sanlam (the life assurance company which controlled Bankorp and has a holding in Absa) have a case to answer about the rescue.

Investigators said yesterday they should be able to recover the money if they can prove the transactions involved were unlawful and not in line with normal central bank prac-

bailout was a case of members of the Afrikaner elite helping each other as apartheid crombled. But the Reserve Bank has denied any wrongdoing, defended the secrecy surrounding the deal as necessary and said the aid was provided "within a framework of principles that was compatible with international practices and standards".

Ahsa, meanwhile, says it bought Bankorp on the understanding the assistance package was in place and regards it as "inconceivable" that it could have to repay the money.

Thabo Mbeki, deputy president, sought to dispel the uncertainty surrounding Mr Stals's future by telling the Heath Commission in May last year to investigate the lifeboat and report back to the government

"within the next few weeks"

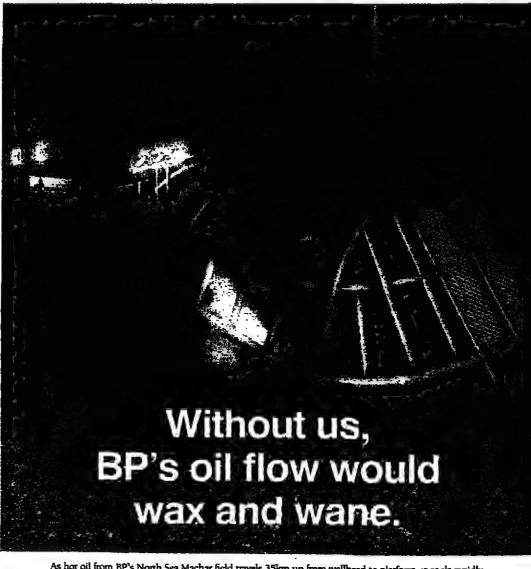
act on the lifeboat case, pending a report from the auditors," Guy Rich. for the Commission, said yesterday. Asked who would be summoned to the tribunal, he said: "We cannot indicate at this stage who the parties are going to be." However, those investigating the

ing the next step.

bank rescue say Mr Stals, who retires as central bank governor in August, and Piet Liebenberg, former Absa chairman, will be among those called, The Heath unit's aim is not just to punish corruption but to recover money for the state. Since it was founded two years ago, it says it has retrieved or saved R10km.

One argument will centre on how the rescue worked. The Reserve Bank lent money to Bankorp at an annual 1 per cent interest which was deposited back at the Reserve Bank

which paid out 16 per cent. The sion has finished its investigations and decided to try to recover the Reserve Bank says the rescue was in money, although it says it will wait the form of a loan and legal, but



As hor oil from BP's North Sea Machar field travels 35km up from wellhead to platform, it cools rapidly, and the wax it contains solidifies on the pipeline wall. This wax could soon inhibit oil flow, but a pigging system specially developed by GD Engineering - part of John Crane - ensures that these oilfield arreries don't clog.

GD's unique sub-sea launcher uses pressure from the well to fire "pigs" - ribbed cleaning tools - through pipelines to scrape off wax and carry it back to the platform for removal, without interrupting operation. The success of their first satellite well designed to rely on GD's remotely-controlled launcher means that BP can develop wellheads even further from their platforms. John Crane is one of TI Group's four specialised engineering businesses, the others being Forsheda Polymer Engineering, Bundy and Dowty. Each one is a technological and market leader in its field. Together, their specialist skills enable TI Group to get the critical answers right for its customers, Worldwide.



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Donald Johnston, secretary-general of OECD, left, met Yevger Primakov, Russian prime minister, in Moscow for telks. Page 2

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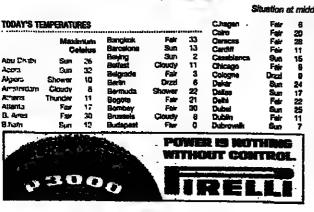
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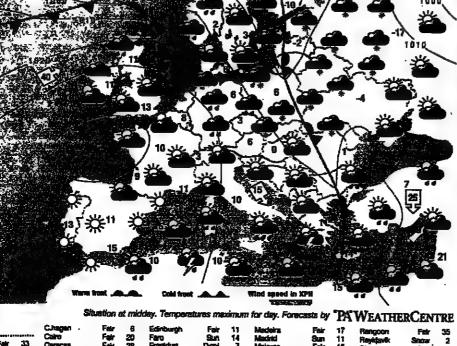
Spain and Portugal will be fine with and the Balkans will also be outto sunny but southern Italy and Greece will be cold and unsettled be dry with sunny spells and armer than recently. Southern expect snow flumes but northern Germany and the Low Countries

Five-day forecast

an dry and sunny as high over the next few days. Greece and much of the eastern Mediter ranean will see showers dying away but returning over the wee end. A much colder north-westerly flow is likely to develop over north







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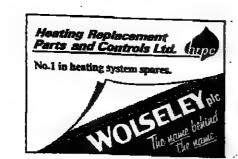


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FINANCIAL TIMES

# **COMPANIES & MARKETS**

WEDNESDAY FEBRUARY 3 1999



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#### INSIDE

Spanish try to block Endesa Chile sale Shareholders in Enersis, Chile's principal electricity distributor, will vote tomorrow on the sale of its 25 per cent holding in Endesa Chile. the country's biggest generator. However, Endesa of Spain - no legal ties to its Chilean namesake - will be using its 32 per cent Enersis stake to try to block the sale. Page 20

Sankey steps down as Reckitt head Vernon Sankey stepped down as chief executive of Reckitt & Colman following growing investor unease over the performance of the household products and household medicines group he has led since 1992. Page 24

Shipowners in deep water on freight Shipowners in the dry bulk cargo sector are still realing from the Asian crisis, which has savaged the global trade in commodities that is their Industry's backbone. With freight rates at 12year lows, many shipowners cannot even cover their costs. Commodities, Page 28

Battle waged for euro products lead Leading currency derivatives exchanges are vying for a lead in euro-based currency futures and options trading. The Chicago Mercantile Exchange is being challenged by Finex, the Dublin-based futures arm of the New York Cotton Exchange. Capital Markets, Page 26

Jakarta awaits rupiah stabilisation



Indonesian shares weakened despite an endorsement from Mark Mobius of Templeton Asset Management, known for moving markets with his predictions. affected by social unrest and the first real

election campaign in

40 years is expected to cause clashes. Groups loyal to former president Suharto (above) have been accused of organis-ing riots. Emerging Market Focus, Page 38

ARM posts strong full-year data Strong sales of digital devices including mobile telephones and games machines helped ARM Holdings, the UK-based semiconductor design group, report strong maiden full-year results. Profits more than doubled. Page 24

investors fret over Czech upheavals Foreign investors are starting to worry about the new Czech government's attitude towards the corporate sector, which has carried out a series of board changes in majority state-owned - but

publicly quoted - companies. Page 22 Tanzania mining tipped as rising star Tarizania is being tipped as the rising star of **Viricen mining. Pre** antly 15th in the conti production league table, consultant David Williamson, speaking at the investing in African Mining conference, said he expected it to shoot up the rankings. Commodities, Page 28

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# Low commodity prices may not fully recover

World Bank fears difficulties for emerging economies

Global commodity prices may never fully recover from their historic lows of the past 18 months - with far-reaching consequences for emerging economies, according to the World Bank

The drop in prices, which has seen some commodifies trading at a third of their evels of four years ago. temmed more from improved technology and policy changes n producing countries than from falling demand in Asia, the bank said in the first of a series of reports called "Global Commodity Markets".

Commodity prices were already on their way down when the Asian crisis hit in mid-1997, said Donald Mitchell, smior economist at the World Bank. "Asia just accelerated the speed of the decline and made the prices fall further." The World Bank's food price

had fallen 12.7 per cent by the time the Asian crisis began. Its index of metals and minerals prices peaked in August 1995 and had fallen 11 per cent by June 1997. All commodities sectors

have been affected, from agri-

culture to metals. Rubber

dropped about 65 per cent from its level in 1995, and base metals such as nickel and copper are 50 per cent lower. Sub-Saharan Africa was likely to bear the brunt of the damage from lower commodity prices, Mr Mitchell said, because three-quarters of its

Lower oil prices would continue to take their toll on Middle Eastern producers. Latin America also stood to lose because about a third of its export revenue came from commodities exports, Mr Mitchell mid.

Asia would take less of a hit

exporter of commodities and raw materials.

High prices in the early 1990s encouraged higher production, while new technology and liberalisation in producing countries belped cut costs and increase supplies.

ily identified in base metals, where prices have dropped sharply but companies have continued to increase produc-

tion," said Mr Mitchell. The World Bank said refine ments to oil extraction techniques had cut costs, while three-dimensional computer seismology and new drilling methods had made it easier to locate dil reserves.

Oil prices hit a 12-year low of less than \$10 a barrel last year on the back of fears about global supply levels. Eighteen months ago they were about



# Alphatec rescue points way for Thailand

Creditors of Alphatec Electronics, the troubled Thai semiconductor company, yesterday approved a court-supervised debt restructuring plan to save the company from liquidation. The deal, the first of its kind in Thailand, will provide momentum for broader corporate restructuring.

The plan, devised by PwC, the global professional services group, will see the company's operations taken over by the direct investment arm of remaining 20 per cent of the will have his stake in the com-American international Group, company, valued at \$10m, pany almost wiped out. Court-

the US insurance group, and receive new secured debt val- supervised business reorgani-Investor AB of Sweden. Together they will buy an 80 per cent stake in the company Holders of Alphatec's \$363m

unpaid commercial debt, including foreign banks Credit Agricole Indosues, ING Bank and Sumitomo and domestic banks Krung Thai and Bangkok Bank, are expected to recover between 12 per cent and 30 per cent of their outstanding loans.

The creditors will hold the

ued at \$35m and have a non- sation is a new procedure in scheme. Krung Thai had interest bearing performance obligation of up to \$55m. They will also receive any

funds recovered from former Uswachoke, former chief executive officer and shareholder, who is alleged to have taken Bt10bn (\$270m) in "improper transactions". Mr Charn, a senator who has

lead the fight against amendments to Thailand's bankruptcy and foreclosure laws,

Thailand and Alphatec was seen as a test case for the ability of creditors to take charge of the rehabilitation of an insolvent but potentially profitable company.

work," said John Perrins, a PwC partner who led the restructuring plan. "Once it gets under way it becomes very much a creditor-driven Drocess."

Approval comes after months of delay caused by objections from state-owned

feared that stripping Alphatec of its assets for the benefit of new investors would hurt its ability to pursue claims against Mr Charn. It was also reluctant to realise the writeoffs the plan entails. The revised plan allowed for

the actual write-off to be delayed pursuant to further recoveries from Mr Charn and changed the structure of the deal to "make the creditors more comfortable" in their nursuit of those recoveries.

Netherlands and Germany. The group aims to spend

work directly with local activ-Mr Myerson said the atmo sphere in the UK had changed as investors realised that

"unless you act like an owner. you are treated like a tenant". The group will build up stakes in target companies over the coming months. Over the past year, it has forced

Active Value also holds a majority interest in John Mansfield, the takeover vehicle ron by Stuart Wallis, which is understood to be on the prowl

# Preussag to raise \$1.1bn for tourism strategy

By Yeay Berber in Frankfurt

Premasag, the German leisure, travel and industrial group, is to raise about DM2bm (Clbn. \$1.1bn) for its rapidly expanding tourism interests, which have replaced steel, coal and engineering as the conglomerate's core activity.

Analysts said the move underlined Preussag's determi-nation to press ahead with its conversion from heavy industry to tourism and services. The commany is to ask share-

holders next month for permission to issue new shares and a convertible bond from canital authorised but not used. investors marked down

Precessag's share price by 5 per cent after the news, implying a dilution of the value of existing shares. But company analysts said Preussag's amouncement made sense in view of the group's ambitions to emioit the growing European tourism market.

Preussag agreed in December to take over Germany's expand into France and the but it was possible Preussag

biggest chain of travel agents, First Reisebüro, and to buy a 50.1 per cent stake in Thomas Cook, the UK travel and finan-

cial services company. Preuseag started its switch into tourism in September 1997 with the acquisition of Hapag-Lloyd, the German transport and tourism group. It has quickly built up a market share of between 15 and 25 per cent in Germany, the UK, the Benelux and Switzerland, and is now thought to want to

Mediterranean. Michael Frenzel, Preussag's chairman, said: "Our new strategic direction is making a lasting improvement to the quality of the group's

results. In line with its move away from heavy industry, Preussag is considering the sale of parts of its plant construction unit and its shipyards business to the German engineering firm Deutsche Babcock, Babcock said the size of the acquisitions remained to be decided,

might buy a stake in Babcock if the deal went ahead. Giving its results for the fis-

cal year ended September 30, Preussag announced record group consolidated profits of DM539m, up from DM397m in 1996-97. Group return on equity in 1997-98 rose to an impressive 33 per cent from 23.7 per cent a year earlier.

Preussag said it expected 1998-99 group sales to rise to more than DM40bn, more than 13 per cent higher than the 1997-98 turnover of DM35.2bn.

change at several UK com-panies including Kenwood.

for companies to turn around.



BARRY RILEY

# Yen still able to surprise

Beware of a stronger yen. The appreciation of the Japanese currency was last year's surprise foreign exchange development and this year the forecasts range anywhere between 100 and 145 to the US dollar (yesterday the actual

rate was 112). emed to signal on January 12 that 108 was their intervention point.
But anything could happen

as global trade imbalances widen still further. The Davos meeting of the World Economic Forum indicated little unity between the Americans, the Europeans and the Japanese about the

way to tackle the global omic crisis. The first assumption is that a weak economy should have a soft exchange rate. That is indeed the fate that has begun to afflict the sure as the core economies of the euro-zone lose momentum. However last

Japanese bubble economy in year the yen proved to be the world's strongest major currency despite a fall of some 3 per cent in Japan's gross iomestic product The Japanese current account surplus of \$12000 for 1998 could rise towards \$15000

this year. Only continued strong capital outflows could neaken the yen. For a while, rock bottom bond yields and foreign exchange liberalisation moves encouraged private capital to Now, however, the Japanese

povernment appears determined to finance the bulk of its huge fiscal deficit through the domestic bond market. The 10-year government bond yield jumped

to 2.3 per cant yesterday. The popular American view is that the Japanese must inflate their way out of their problems. This may indeed be the eventual solution. But it fails to recognise the resistance of a fast-egeing society to the destruction of

savings.

Meanwhile the global economy remains precarious. According to the Americans, they are the heroes who are sacrificing their credit card limits in the cause of growth. You could also argue, however, that they are sucking

up other people's capital and underpaying for imported It is tempting to compare this late stage of the US economic boom, after growth of more than 4 per cent in 1998. with the tail-end of the

At that time Japan was considered to be unstoppable. But the yen began to weaken in the first half of 1989 (from 125 to 149 to the US dollar) and short-term interest rates were raised progressively, from 4.5

Now, of course, the US economy is unstoppable too. Americans are becoming complacent about the collars of developing economies, however dire the news from Brazil. If China is the next domine to fall, or the oil producers suffer financial

to 7 per cent.

collapse, who really cares? Wall Street's practitioners have understood that, in the short term, the emerging market instability simply channels more capital back into the safety of the US economy. The bubble is

further inflated. The final stage of the bull market may now be encouraged by the unexpected strength of the US economy. This should relax some of the pressure on corporate

earnings. We don't yet see, after all, the persistent general weakness of the dollar that might signal the end of the game, Indeed, the euro is the currency most obviously under sure, having fallen from 1.18 to \$1.13 in a month.

From most viewpoints around the world, the dollar must still appear to be a safe haven. But according to CrossBorder Capital, which tracks global liquidity flows, the Japanese government will have to buy foreign currencles this year to the tune of more than \$100hn to restrain the yen at about 100 to the dollar.

This will give the Japanese government political leverage over Washington. Meanwhile private sector repatriation of loreign currency assets to lapan is likely to be seasonally bunched ahead of the March 31 financial year-end. For those who assume the

yen will be weak, it could

prove a tricky year.

Boods, Page 26

The LEK Partnership

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US and Canadian institutions. which have traditionally taken a more activist role than their

European counterparts. Calpers, the world's largest public pension fund and one of te most activist shareholders. has invested \$200m. Some money is from UK municipalities and private individuals. The group's success in rais-

The amount is much more

About 75 per cent of the

ing money is an indication of the increased interest in activist shareholding to add value in Europe. Brian Myerson, joint director of UK Active Value, said the size of the new fund would enable it to target companies valued at up to £700m (\$1.1bm) in the UK and poor performers in continental Europe for the first time. UK Active Value, set up by

Mr Myerson and Julian Treger seven years ago, typically buys more than 3 per cent of companies before seeking a change of management or restructuring. Both men have identified investment opportunities in France, Scandinavia, the

about a quarter of the fund outside the UK, where it will

AIRLINES

#### **KLM** maintains outlook despite fall in quarter

KLM, the Dutch airline, stuck to its full-year profits outlook yesterday despite a third-quarter loss blamed on an industry-wide slump and the after-effects of a strike at Northwest Airlines, its US partner. The carrier swung to a net loss of FI 29m (€13.2m, \$14.9m) in the October-December period - largely in line with analysts' expectations - from a profit of FI 46m a year before.

KLM said yields had fallen owing to global economic weakness and the fact that many airlines had transferred flights to the North Atlantic following financial turmoil in Asia. Nonetheless, the airline said it was maintaining its per-share earnings forecast of between FI 6.50 and FI 7 for the 1998-99 year. Shares in KLM ended unchanged at €24.30. Jeremy Gray, Amsterdam

ITALY

#### Pirelli advances 16%

Pirelli, the Italian tyre and cables group, yesterday reported a 16 per cent rise in 1998 pre-tax profits to L795bn (€411m, \$464m) on a 5.5 per cent fall in consolidated sales to L10,647bn. The company said operating profits rose 5.3 per cent to L800bn following improved productiv-ity and cost-cuts. Paul Betts, Milan

**SWITZERLAND** 

#### Baer raises dividend

Julius Baer Group, Switzerland's biggest independently quoted private bank, said yesterday it was raising its dividend by a third - to SFr69 a bearer share - following a 28 per cent rise in 1998 pre-tax profits to SFr370m (\$260m). Its 16 per cent rise in assets under management, to SFr93.8bn, will be seen as the benchmark against which the private banking divisions of UBS and Credit Suless will be measured. William Hall, Zurich

GERMANY

#### Stinnes co-ordinators named

Veba, the Düsseldorf industrial conglomerate, has appointed Drescher Kleinwort Benson and Warburg Dillon Read joint global co-ordinators for the initial public offering planned for its Stinnes logistics arm in the second quarter of this year. Analysts say it could have a value of about DM3bn (£1.5bn, \$1.7bn). Raiph Atkine, Bonn

INVESTMENT BANKING

#### Lehman appointment

Lehman Brothers, the US investment bank, has recruited John St John as global co-head of equity capital markets. He is moving from Salomon Smith Barney, where Michael welle was yesterday promoted to replace him as head of European equity capital markets. Clay Harris

CERAMICS SWISS-OWNED KERAMIC LAUFEN EYES DEAL WITH FINLAND'S SANITEC TO CREATE EUROPE'S BIGGEST GROUP IN THE INDUSTRY

# Sanitary ware producers consider link-up

By William Hall in Zurich and The Burt to Stockholm

Keramic Laufen, Europe's second biggest sanitary ware manufacturer, and Sanitec, one of its main rivals, are understood to be exploring the possibility of a cross-border merger which would create Europe's biggest company in the sector.

Sanitec, part of Finland's Laufen, a family-controlled Swiss company, were both close to merging with

Armitage Shanks, the UK's leading bathroom ceramics company, which was yesterday sold to American Standard for £253m (\$415m).

Many analysts expect that the sale of Armitage Shanks will be followed by rapid consolidation in the rest of Europe's sanitary ware industry, which has been Sanitec, part of Finland's suffering from excess capac-Metra Group, and Keramic ity and low margins. In mid-1996 Keramic Laufen came

competitor, but the deal collansed at the last moment. Since then Keramic Laufen has posted heavy losses, and a new management has restructured the company. It has sold its heavy clay divi-sion, re-organised the tiles

business and is focusing on

its core business of sanitary

However, the group's promised return to profitability has been delayed by

interested in bidding for Sphinz, a loss-making Dutch downs on its Brazilian operation and the collapse of alliances and strengthening demand in Asia and Russia. It recently announced that it would lose SFr150m (\$105.4m) in 1998, following a SFr170m loss in 1997.

Keramic Laufen, whose shares have fallen by nearly a third since the start of the year, has refused to comment on the possibility of a merger with one of its strongest competitors. However, it said a few weeks ago that

its capital base, in consultation with leading shareholders. It wants to maintain its global presence, particularly in Europe and South America markets. In 1997 it had sales of SFr1.1bn

Metra, Sanitec's Finnish parent company, has made no secret of its ambition to expand its bathroom ceramics arm. The subsidiary. boasting margins of 14 per it was evaluating various cent, saw operating profits own feet."

respectively of Paribas and

SG, will move on to

Frankfurt tomorrow and

Friday. The banks said on

losses would come from

among the 35,000 staff

they employ outside

these work in the UK.

Monday any mandatory lob

France. More than 4,100 of

Zurich and Geneva on

options, including strategic rise from FM273m the first nine months of last year, while sales rose 15 per cent from FM1.94bn to FM2.23bp.

Georg Ehrnrooth, Metra chief executive, said Sanitec was the most profitable business of its kind in Europe and had become one of the world's largest samtary ware companies. "It has reached a position where the company could stand on its

# French banks to target Japan after merger

By Giffian Tett in Tokyo

Paribas and Société Générale hope to seize a dominant position in the business of selling euro products into Japan as a result of their planned merger, their senior management said vesterday. Speaking in Tokyo, Jac-

ques Bouhet, global deputy chief executive of SocGen, said: "In any business what matters is critical mass - to be a global player you have to be in the top two or three in your home territory. We should be one of the top players in the euro bond and equity markets (as a result of the merger)."

Yusuke Yasuda, head of the Paribas operation in Tokyo added: "Our strength is the euro. We have seen great interest in euro-denominated products and this merger is going to reinforce our existing strengths."

The business of selling suro-products into Japan is likely to attract fierce competition in the coming months, since the country has the largest pool of savings in the world.

Although Japanese investors have been relatively slow to move into euro products so far, interest in the euro is growing steadily.

tial growth in this Japanese market would allow them to avoid job reductions in their

Mr Bouhet said: "One o the beauties of this merger is that there are few redundancies. We are in different husiness areas.'

Mr Yasuda added: "I do see any immediate reductions - we both have different fields of operations. Japan is a good example of This stance could poten-

tially leave the two banks as one of the larger foreign investment banks operating in Tokyo. The two banks employ about 500 staff each. Neither of the two banks is considered one of the big foreign groups in the overall financial markets in Japan. compared with groups such

However, Paribas has a strong position in the Japanese government bond mar-

as Goldman Sachs or Merrill

Meanwhile, SocGen has been rapidly building up its management asset operations, after purchasing the asset operations of the failed broker Yamaichi Secu-

And the two banks yester See Lex, Page 16 7 ---

# Italians pressed to consolidate

The Italian banking industry was yesterday under increasing pressure to consolidate following this week's merger of Société Générale and Pari-

Banking analysts expect a frenzy of top-level meetings in the next few days that could step up the pace of consolidation, with Banca Commerciale Italiana (BCI), after years of dithering, in the lend role.

"The world is moving at an ever-increasing rate, but Italy is displaying some stickiness in this proce said Lucio Rondelli, chairman of UniCredito Italiano, the Milan-based banking group, recently formed through the merger of Credito Italiano and three large

north Italian regional banks. The last two years have en unprecedented merger activity in Italy's fragmented banking industry that has led to a series of significant banking integrations. These include Intesa, the group combining the Cariplo

managers of Paribas and Société Générale will be briefed tonight by the French banks' cha about the €15bn (\$17bn)

Three hundred UK-based

takeover deal announce: on Monday, writes Clay Harris. After their visit to London, André Lévy-Lang and Daniel Bouton, heads

bas merger will create a savings bank and Banco Ambroveneto; San Paolo-IMI. group with total assets of nearly €690bn. By compariwhich brought together son, the three large Italian Italy's largest commercial banking mergers have cre-ated groups each with total bank with the IMI investment bank in a smaller Italian version of this week's French banking merger, and

DniCredito Italiano. "The Italian mergers com pleted so far were regarded until this week as a viable, if temporary, solution to the growing globalisation of the industry. But they have aiready been overtaken by events and Italian banks will be forced to seek even bigger alliances." said one Milan banking analyst.

The Société Générale-Pari-

assets of barely €200bn. The French merger has again put the spotlight on

the protracted merger efforts of BCI and Banca di Roma. Mediobanca, the Milan investment bank, has been pressing the two groups to combine to safeguard its own future and shareholding structure. Both BCI and Banca di Roma each hold 8 per cent stakes in Medio-

has also eyed expansion through a deal with BCI while UniCredito, which also owns 8 per cent of Mediobanca, is likely to return to the fray in an attempt to compete against the new enlarged European banks.

The Italian monetary authorities have also continued to encourage consolidation of the banking sector and have become increasingly open to foreign investment in Italian banks. Crédit Agricole of France is now the largest single shareholder of Banca Intesa with 26 per cent. Banco di Bilbao is the largest single shareholder in the recently privatised Banca Nazionale del

Lavoro with 10 per cent. BCI itself has several important foreign sharehold era, including Commerzbank of Germany with 5 per cent, Deutsche Bank with 4.5 per cent and Paribas with 4 per cent. Rolf Breuer, chairman of Deutsche Bank, said this potentially "an excellent

# Tractebel chief eyes footing

Baron Philippe Bodson is on vacation in the Himalayas. But it might as well be a for a fifth of first-half profits heavy training session, as climb when he returns to

According to Belgian media speculation, Mr Bodson faces attempts to oust him from his role as chief executive of Tractebel by the Belgian energy group's majority shareholder, Suez Lyonnaise des Eaux. Both companies refuse to comment, but analysts - and the Belgian government – take the rumours seriously.

Outsiders might find that surprising. Mr Bodson has an enviable record. In his 10 rears at Tractebel, turnover has nearly doubled from BFr205bn (@5.08bn, \$5.7bn) to BFr388bn (€9.62bn, \$10.9bn). as it has evolved from ragbag holding company into fast-growing energy group and the world's third biggest ndependent power producer. Tractebel's shares have gained 110 per cent since

the European utilities sector by 79 per cent. Suez Lyonnaise, which was 50.3 per cent of Tractebel via its wholly owned Bel-

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BARCLAYS

lanuary 1998, outperforming

Société Générale de Belgique, has reason to be ed. Its energy division, mainly Tractabel, accounted

the vigorous, flamboyant So why is Gérard Mestralbusinessman may have a let, Suez chief executive. Mr Bodson out? Analysts suggest Mr Bodson is partly a victim of his own personality and ambition.

He stands in the way of Mr Mestrallet's plans to complete the evolution of the former holding company, Compagnie de Suez, following its merger with Lyonnaise des Eaux in 1997, into an integrated "multi-utility" group. Mr Bodson is described as

an "Ideas man, not a details man" by one analyst - but with a gift for motivating people. Most importantly, and irritatingly for Suez, Mr Bodson does things his way. He has fiercely defended his independence from dominant shareholders at Tracte-

bel and elsewhere. He has never got on well with his latest chairman, Mr Mestrallet. The more understated *énarque*, or graduate of France's elite Ecole Nationale d'Administration, ran bel to below 50 per cent. Société Générale de Belgique for Suez in the early 1990s

before heading Suez itself. dream of merging Tractebel

with its 40 per cent-owned subsidiaries Electrabel and Distrigaz, Belgium's electricity and gas monopolies, to create an energy super-

Analysts say the idea makes industrial sense, allowing Electrabel's Clbu-ayear cash flow to be channelled into accelerating Tractebel's overseas expansion. But they suspect Mr Bodson has a further motive: diluting Suez Lyonnaise's stake in an enlarged Tracte-

Suez evidently shares those suspicions, remaining publicly lukewarm about a extended a deadline before The flashpoint between merger, while privately the two is Mr Bodson's blocking even a feasibility study. It has not gone unre-

that Mr Bodson's departure would probably hit Tractebel's share price - making it cheaper for Suez to achieve what some believe is its ultimate aim of buying the rest of the Belgian group. But has simply run out of patience with his recalcitrant chief executive.

"Suez may feel they don't need to take over Tractebel if they can remove Mr Bodson," says one analyst.

The speculation around Mr Bodson has sparked concern in the Belgian government. Jean-Pol Poncelet, energy minister, called last month for the strengthening of Balgian laws implementing EU moves to liberalise Europe's electricity market, to protect domestic interests.

Some believe Suez may demand Mr Bodson's head as the price for a broader compromise with the government, committing Sugz to heavy investment to develop Tractebel as its Belgian-

based "energy pole". Such a deal could stiffs any backlash from minority shareholders. One who had demanded an emergency board meeting to confirm Mr Bodson in place yesterday attempting legal action. Mr Bodson may start to wish he had stayed in the Himalayas



The board of directors met on 27 January 1999 to review the activities of 1998, to assess the trends for the coming months and to consider the forecasts for 1999. The meeting was chaired by Mr Georges Mazaud. it the positive impact In terms of value, the real estate assets of the SIMCO group registered the first effects of investors' renewed interest in real estate. The value of the buildings owned by the SIMCO group, as estimated by an independant expert at 31 December 1998, was set at FRF 15.17 billion (2.31 billion euras), compared with SRF 41.28 billion (2.25 billion euras), compared with SRF 41.28 billion (2.25 billion euras). 1998 was the year in which SIMCO assumed effective control of CIPM

The new enting, resulting from the merger at the end of December 1997, enjoyed favourable conditions for its first year of activity, both internally and externally.

 The change in the overall economic situs The change in the overall economic similarity over-fitted the property market in general and the rental sector in particular, both in terms of space let and rising

• The group's operational tools, both in I.T. and in the connectal field through LOCARE, which SIMCO took over at the end of 1998, made it possible to achieve the hoped-for economies of scale and very satisfactory em of asset management.

1,862 relets

increase in rents on reletting... financial occupation rate as at 31,12.98\_\_\_\_96.70 % Commercial property

28,800 m² net relet rents stabilised and rose financial occupation rate as at 31.12.98 \_\_\_\_\_ 95.30 %

316 apartments sold for FRF 166 million (25 million euros) The first indications are that the results for 1998 will be in accordance with the trends for the first six months, which bodes well for the whole year, and will strengForthcoming events: Annuai results: 31 March 1999 Denetal meeting 9 June 1999

resulted from the merger with CIPM.

with FRF 14 78 billion (2.25 billion euros) at De 1997, on the basis of the stamp duty in lorce. The restated asset value amounts to FRF 652 (99.4 euros) per share, before tax, compared with RF 636 (97 euros) per share at 31 December 1997 (+ 2.5%) based on the provisional accounts at 31 December 1998.

SIMCO shares are back in favour on the stock market.

At the end of 1998 SIMCO shares were trading at FRF 507

(77.3 euros), up 25% over December 1997, and since

the beginning of January 1999 they have outperformed the CAC 40.

Finally, SIMCO's market is moving in the right direction, both in residential and commercial property, and the company looks set to perform even better in 1999, thanks to the organisation and tools which have

# BIGGEST GROUP IN THE REPORTED ler link-up

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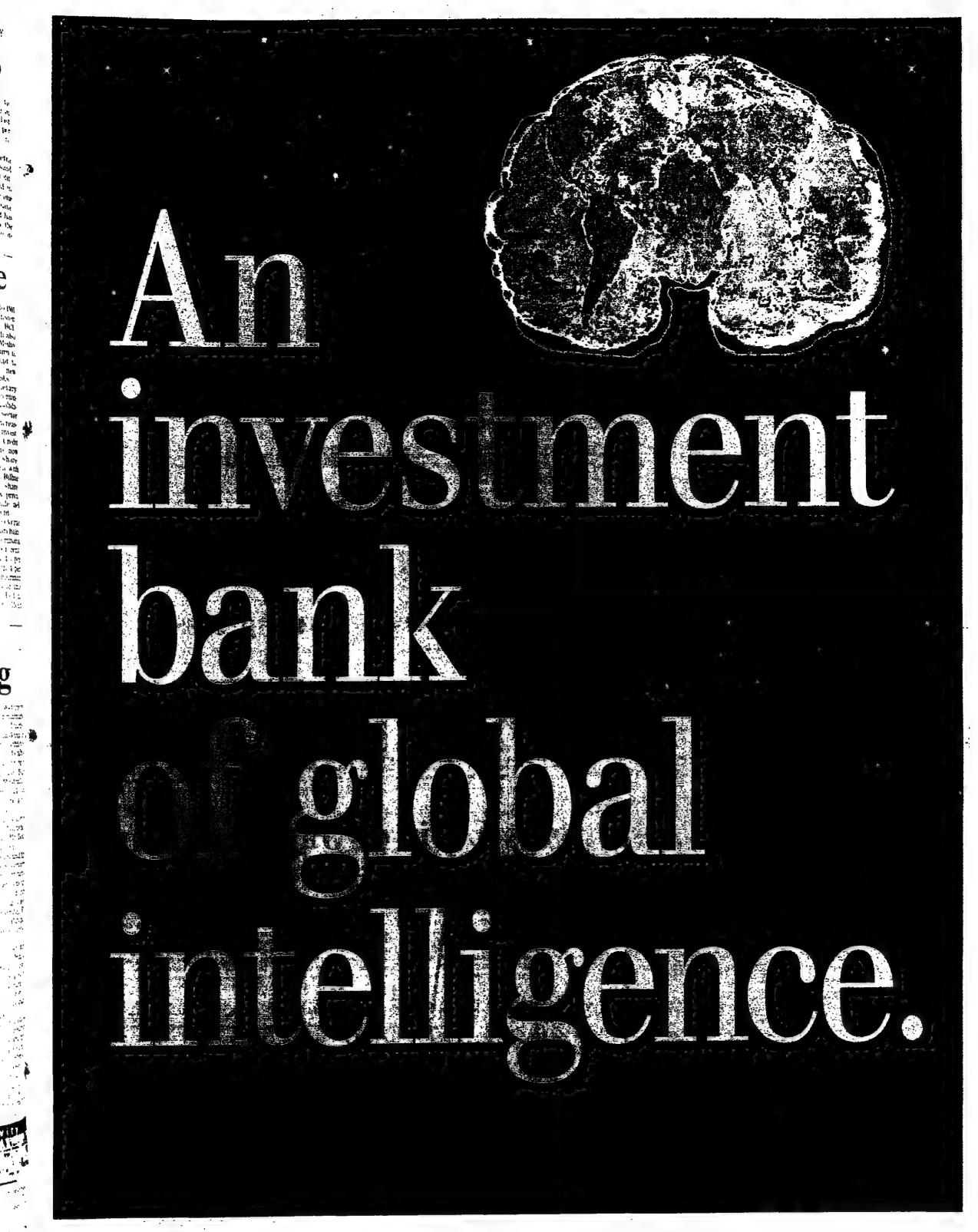
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All investment banks say they do the same things. One does them differently. Warburg Dillon Read has a global mandate, yet our thinking is a world apart from standardized, rigid and restrictive. In local markets, we have local knowledge. In global markets, we offer global resources. No firm can commit more. You'll also find us more individual, more innovative; in fact, the more intelligent choice.

\* Warburg Dillon Read

Some industries are in a nies were fully bedeed.

# Brazil lurches as bank president resigns

By John Barham in São Paulo

Stability in Brazil may have become more elusive yesterday after the central bank president resigned after less than three weeks in office, but companies are recovering from the shock of the real's collapse in January and coming to grips with the

At first, every company that could simply froze busi- coffee brands. The coffee ness, as volatile markets companies wanted prices made it impossible to decide on the price for items ranging from luxury imported commodity priced in dollars. Cars to frozen chickens. The retailer's other suppli-

Now, companies need to replenish their diminishing stocks and have started to negotiate new prices and on a case-by-case basis.

payment terms with suppli- Some prices will go up ers. Suppliers are attempting to pass on as much of their increased costs as possible, while buyers try to limit

France's Carrefour, Brazil's biggest retailer with 59 supermarkets, said last week it would not accept "unjustified" price increases. So far the only products Carrefour has banned are two leading increases of up to 44 per cent, arguing that coffee is a

ers have got the message. A Carrefour official said: "Negotiations are proceeding

because [of devaluation] but stronger position than oththe increases." He said Carrefour would only agree to pay more after it has down of the supplier's production costs.

Large groups such as Carrefour, which had revenues of R\$5.5bn (\$2.8bn) in Brazil in 1997, have the upper hand over a fragmented supplier base. Although the real has depreciated sharply, companies can still switch to foreign suppliers if necessary. Imports will limit the scope for price rises as long as Brazil maintains an open trade

companies have to justify ers. André Paes, an investment analyst at BBA Capital, a São Paulo asset manager, says steel is well pored over a detailed break- positioned to impose higher prices now that imports have become more expen-

> Companies are tightening credit control, particularly since devaluation makes analysing credit risk all the barder. Suppliers cannot be entirely sure about the impact of devaluation on clients' balance sheets, threatening their ability to pay. Although corporate Brazil is not excessively leveraged and was well prepared for devaluation, not all compa-

broader issues such as branding and market strat- the cost of capital and could egy. Mid-range brands began - cut 1999 net profit by 20 per gaining ground from pricier cent for some steel compapremium brands as Brazil nies, breweries and utilities began slowing down last year. This trend may accelerate as the country begins sinking into a deep recession. Managers must soon decide whether it is prefera-

ble to sacrifice margins and retain access to favoured clients, or whether the time has come to force prices up, even at the cost of a smaller share of a shrinking market. Growing tax burdens are companies. Bozano Simon- steady.

Businesses are reassessing ment bank, says a tax pack-

Executives will have a tle many of these issues as financial markets settle down and economic indices haps the most important indicator of all. Few compaples would welcome a return to inflation, forecast at 10-30 per cent in 1999, but a combination of a declining currency, rising taxes and already pressurising profits, higher operating costs will especially for more indebted make it harder to hold prices

HEDGE FUND NOBEL LAUREATE STEPS DOWN

# Scholes quits partnership

in Henr York

One of the two Nobel Long-Term Capital Management, the US hedge fund whose near-collapse last autumn shook world financial markets, has resigned his partnership at the

Myron Scholes, whose name graces the options pricing theory that lies at the tives markets, said that he was leaving the fund to move to California - a step he had been planning for a

The presence of Mr Scholes and fellow Nobel claims to being one of the matters." most sophisticated traders in the derivatives markets.

Wall Street's confidence in the fund's financial expertise enabled it to take vast posttions in the financial markets, adding to the potential damage that it would have caused had it gone into liqui-

Like other LTCM partners, Mr Scholes has seen the huge profits he made in the fund's early years largely

The partners had a combined \$1.9bn stake in the

profits they had made since the LTCM was set up in 1994. but some also borrowed

In a statement explaining his decision to leave, Mr Scholes said that he had delayed his plan to move to California last summer after the fund got into diff. culties.

"This move is possible now that LTCM's fund has stabilised," he added.

Mr Scholes said he had bought a house in San Francisco last summer, ahead of his marriage in October, and had planned to spend "a great deal of my time there, laureate Merton Miller and my own children, while among LTCM's 16 partners still devoting a majority of lent weight to the fund's my efforts to LTCM

Along with William Krasker, another partner who stepped down yesterday, Mr Scholes' investment will remain in the fund, and he will remain a limited pariner.

Mr Krasker was part of the bond arbitrage team that left Salomon Brothers to found LTCM along with John Meriwether, Salomon's former top bond trader.

Mr Scholes is co-author of the Black-Scholes pricing model, which is widely used to value options and other \$4.7bn fund at the end of derivatives with option-like

# Retailers hit by slowdown in Mexico

in Marden City

the economic slowdown has hit Mexico need only look at the decline in tequile sales for powerful proof that consumers are feeling the

A drop in demand for the fiery drink, almost as much of a dietary staple as tortithe sector most vulnerable to consumer whims - Mexican retailers.

ner, there are already signs that the holiday season was not very merry. Retail sales for December declined 2.5 per cent year-on-year, according to the Mexican retailers association. Supermarket sales dropped 2.2 per led the fall with a 3.7 per

cent drop. While analysts are confident that Mexico's listed ing. Cifra, the department store chain, announced disappointing December sales. forcing Salomon Smith Barnev to downgrade estimates for fourth-quarter sales ster AC Nielsen, four of five growth from 5 per cent to

Fellow retailer Soriana followed the downward spiral, with December same-store sales inching up 0.3 per cent over last year. That compares with year-on-year year for the second quarter of

Consumers, meanwhile, continue to be battered by high interest rates, a weaker currency and double-digit ward trend should bottom inflation, spurred by con-

"The world is a very different place after the [Brazilin general the fourth quarter steel manufacturers and conhad very good momentum, I struction companies are

difference now. We're living in a different world and going into the new year results will be much worse, says Jorge Mariscal, chief Latin American strategist for Goldman Sachs in New

Credit card loans are a good indication of future retail prospects. Bancomer, the Mexican bank, actively discouraged customers from llas, does not bode well for using cards during the heaviest shopping season of the year. At a time when credit card loans are usually With fourth-quarter up, December loans shrunk results just around the cor- to below September volumes and are down year over year.

At the same time, Mexicans are watching their incomes contract. A 14 per cent increase in minimum wages last November has been negated by recent price rises in public transport, petcent while department stores rol and basic foodstuffs, government regulated price

caps on tortillas. "It will be tough for the retailers will end the quarter consumer and going into the on a positive note, with earn- new year they will be very ings partially buoyed by a cautious - the fact that banks are saying 'don't use pretty powerful message, says Susan Gilbertson, chief Latin American strategist with Paribas in New York. In a recent survey by poll-

Mexican homes believe the peec will be heavily devalued this year and inflation will reach at least 30 per cent. Lower consumer expectations, combined with higher estimated unemployment this year, will have a sales growth of 7.4 per cent direct effect on economic growth, say private economists, who have scaled back GDP growth projections to 1.5 per cent for 1999.

Analysts predict the downout by the second quarter of the year, when consumers interest rates come down. ian) devaluation, and while Along with retailers, banks, don't think it will make any expected to be hard hit.

Lloyds Brasil

Asset Management SICAV

1. rue Schiller, L-2519 Luxembourg

R.C. Luxembourg No B 56223

Notice is hereby given to the Shareholders that an Extraordinary General Meeting of Shareholders of LLOYDS BRAZIL ASSET MANAGEMENT SICAV will be held at the registered office in Luxembourg 1. rue Schiller, on 25 February at 11 a.m. with the following agenda.

There exists among the Shareholders and all those who may becon bolders of shares, a Company in the form of a societé anonym qualifying as escriété d'investissement à ospital variables under di name of clawds American Asset Management SICAVs.

Article 5, aliméa 2 is modified as follows:

Article 10, 1" scattened is modupen as possess:

The annual general meeting of Shareholders shall be held, in accordance with Luxembourg Law, at the registered office of the Company, or at such other place in Luxembourg as may be specified in the notice of meeting at 10 a.m., on the third Tuesday of November in

If there is no be redeemed (pursuant to requests for redemption or conversion) on any Desiting Day more than five per cent of the number of Stares of the class concerned then at issue, the Directors may decide to reduce proportionally the redemption requests to such 5% level and to postpone the part of them which has not been redeemed for the next Desiting Day(s) provided that such postponed requests will be given priority over subsequent requests.

Article 25, offices 1, 1" scanner is modified as follows:

The accounting year of the Company shall begin on the 1" June of each rear and shall terminate on the 31" May of the next year.

These resolutions will require a quorant of one half of the outstanding haves and will be adopted if voted by a majority of two thirds of the bareholders present or represented at the Estimordinary General Meeting.

II - Modification of the composition of the Board of Directon Acknowledgement of the resignation of Mr Leonard Plant and MrRobert Paschoali from the Board of Directors and granting them discharge;

Election of Mr Roy Gillson as now Director of the Board for a period of six years;

We would like to remind you that in the event you disagree with the charge a fee accusture, you have the right to redeem your shares free of charge.

These resolutions will require no quorum and will be adopted if voted by a parjority of the Shareholdens present or represented at the Extraordinary General Meeting.

Brazil International Fixed Income Fund from 1,75% to 2,5%.

increase of the management fee of

By order of the Board of Directors

Bruzil Equity Fund from 2,50% to 3,50%, and

Brazil Privatization Equity Fund from 2,50% to 3,50%

Ratification of the nomination of Mr Peter Philips and Mr Colid Inchell as new Directors of the Board for a period of six years.

L- Modefication of the Articles of Incorporation

The minimum capital of the Company is the equi the United States (USO) of fifty militon france has \$0.000,000-) or such other amount that may be Luxembourg Law.

Article 1, alia6a 1, is modified as follo

# Strong debut by Perot Systems

who made a splash as a US Presidential candidate in 1992, threw his hat into the stock-market ring yesterday with the launch of shares in Perot Systems.

Despite a down day on Wall Street, with the Dow Jones Industrial Average off 100 points in early trading. investors scrambled to buy the new shares. The Dallasbased company, which speci-alises in information technology services, issued 6.5m shares at a price of \$16. The shares shot up, gaining more than 150 per cent to \$41% in

is said to exceed \$3bm, was on hand at the New York Ross Perot, the Texas Stock Exchange to ring the entrepreneur and billionaire opening bell. He founded Perot Systems in 1988 and serves as chairman and chief executive. Yesterday's offering leaves Mr Perot believed to have spent \$80m of his own on his political aspirations - with 38 per cent of the outstanding

> Perot Systems is one of the leading providers of outsourced high-tech consulting services with clients in the financial, energy and healthcare sectors. Its largest clients include UBS, which accounts for 25 per cent of revenues, and East Midlands Electricity. For the first 9

reached \$28.2m, or 29 cents a share, on revenues of The successful launch of

Perot Systems and of a number of other non-technology IPOs bodes well for the IPO market. "The type of industries [offering shares] is spreading to include cyclical companies as well as those in technology, and it's a reflection that the market is still doing very well," said tor at IPO Value Monitor. Later this week Delphi

Automotive Systems, the division of General Motors and largest car parts manufacturer in the US, is expected to launch shares in a deal set to raise \$1.6bn.



net service provider owned by the government of Singa-

# Sprint shares tumble as operating losses climb

new national wireless network being built by the US long-distance carrier, fell including the removal of 10 per cent yesterday morning in New York as the company revealed that its oper-ating losses had climbed to \$849m in the final months of build new networks and its 1998, taking its total loss for potential as a takeover tarthe year to \$2.39bn.

At the same time, Sprint's

ment on Wall Street that it fortunes of the company's offering amid the turmoil had fallen short of earnings national wireless network, expectations,

Despite the share price declines, Sprint's shares performers among US telecom companies for some time, reflecting its plans to get in the fast-consolidating US telecoms industry.

have more than doubled since they were launched in November. The success in part reflects the popularity of wireless investments in the wake of Vodefone of the

less carrier, lest month. had planned to sell a stake

UK's agreement to buy Air-Touch, the biggest US wire-

that hit global financial markets. It said yesterday it still planned to go shead with plans to raise \$500m from selling shares in the company, a move that would help it to continue to finance of acquiring those customthe growth of the service.

Sprint PCS recovered some out of its network, left the development of high-speed of its lost ground later in the wireless company with a loss residential telephone ser-The long-distance carrier day and stood at \$29% in of \$1.51 a share for the quarearly afternoon trading, a ter, on revenues of \$487m.

"has passed all expecta- \$1.23bn. tions", said Bill Esrey, Sprint chairman. It added 1.7m customers last year, 836,000 of them in the final quarter of the year, leaving

it with 2.59m in all. The cost ers, and the continued build-

Sprint's traditional operations posted an 11 per cent increase in earnings in the fourth quarter, to \$3.41 a share, below expectations. That reflected the heavy vices and its joint venture with France Telecom and

GOODYEAR-SUMITOMO DEAL

# Goodyear gets a grip on Japanese market

The tyre deal, to be termed a global alliance between Goodyear Tire & Rubber and Sumitomo Rubber Industries, will be structured as six joint ventures around the

However the complex deal will result in Goodyear effectively taking a controlling joint ventures will be opera-

Japanese company's US and are support ventures. European tyre interests and giving the US company a firm foothold in the Japanesa markat. The total annual sales of

the six joint-venture companies will be approximately \$4.6bm, adding about \$2.5bm to Goodyear's annual sales of about \$12.5bn. Four of the

The North American joint

owned by Goodyear and will up of eight Sumitomo plants comprise both of Sumitomo's and six Goodyear plants. US tyre plants. It will have sales of about \$800m. Goodyear is the largest North American tyre company with annual US sales of largest European tyre comapproximately \$6bn and the Sumitomo plants will rein-

investment in most of the tional agreements and two force that lead. The Euro- of approximately 20 per cent. pean joint venture will also be majority-controlled by venture will be majority- Goodyear, and will be made

> This joint venture will have annual sales of about \$4bn and 25,000 staff. It will make Goodyear the second pany behind Michelin of

There are to be two Goodyear, Japanese inint ventures, one for replacement sales and one for original equipment. While both are to be creating a unit that will majority controlled by spend approximately \$550m Sumitomo, they will give a year. Goodyear a solid footbold in

tyre market.

tures, both controlled by One will see the two com panies share research and development technology,

The final venture is a purthe world's second largest - chasing joint venture, controlled by Goodyear. This is There will also be two expected to yield annual syn-France, with a market share global support joint ven- argies of about \$200m.

# Where Asians fear to tread

John Griffiths examines the implications of the link for the global industry

Ato shift the goalposts for determined by even minor the structure and economics of the global tyre industry just as surely as last year's Daimler-Benz and Chrysler alliance did for the vehicle makers on which the tyre industry is dependent for most of its business.

Goodyear will today announce what it will describe as a global strategic alliance with Sumitomo Rubber Industries, Japan's second-biggest tyre maker after Bridgestone, but which in are expected to produce total essence will give it control over virtually all Sumitomo's tyre operations except those based in Japan.

In a face-saving gesture to Sumitomo management in its domestic market, the deal will not be presented as a keep up technologically. takeover, in the same manner that Daimler-Benz and Chrysler was unveiled to the world as a merger of equals. But Goodyear's dominance in its new relationship with Sumitomo will be even more Sumitomo, to the Japanese emphatic.

Through the creation of six joint ventures which will add \$2.6bn of Sumitomo's \$4bn annual tyres sales to Goodyear's own \$12.5bn five of which will be 75 per cent owned by Goodyear - major brand in Europe -Goodyear will be breaking Sumitomo's efforts to free of its decade-long struggle with close rivals Michelin of France and Bridgestone to become the global colossus of the tyre industry. lin, the region's undisputed market leader, from Sumi-For much of the past

decade the trio have each

t one stroke Goodyear in the industry's pecking Tire & Rubber is poised order shifting annually and swings in exchange rates or individual markets.

But the deal has more sig-nificance than size alone. It will bring about a stepchange in terms of Goodyear's scale economies in distribution and purchasing, benefits to be felt equally by Sumitomo with its remaining \$1bn-plus of sales in

opment and other synergies cost savings of around \$300m The sheer size of the alli-

ance's R&D spending, expected to be well over \$500m a year, will make it increasingly difficult for rivals to Not least, it sets before the

Akron, Ohio, group an industry holy grail sought long but hitherto fruitlessly by western tyre makers large scale access, through original equipment and replacement tyre markets, Chrysler deal, the Goodyearthe world's second largest.

Less importantly, it will herald the rebirth of Dunlop, bought by Sumitomo more than a decade ago, as a running to find partners or supplant it with Sumitomo's own having signally failed. Dunlop will provide major new competition for Miche-

\$12.5bn, their precise places and Sumitomo/Dunlop's almost \$40bn of the indus-

sales in western Europe stand at around \$2bn each. At a stroke, therefore, Goodyear will be in a position to challenge much more strongly Michelin's long-standing near stranglehold on the region. Its 30 per cent market lead-

ership has given Michelin enormous influence over the region's tyre distribution and retailing patterns, with none of its rivals having a share much over 12 per cent. The deal will provide Michelin with its first significant rival - a development

that will sit well with the EU's regulatory authorities. The impact will be felt almost as strongly in North America, despite Goodyear's already clearly established market leadership and its

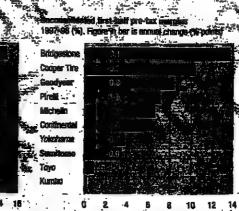
Sumitomo has two plants in North America, at Huntsville, Alabama, and Buffalo, New Jersey, together accounting for \$800m annual sales. They will add, according to industry estimates. some 5 percentage points to Goodyear's 30-plus per cent

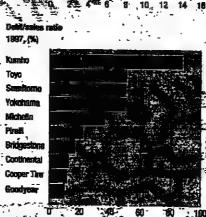
Just like the Daimler-Sumitomo deal should herald a new round of concentration in the world tyre industry and send its rivals takeover targets. Unlike the vehicles sector,

market share.

however, there are far fewer obvious targets. The "big three" - Goodyear, Michelin and Bridgestone - collectively dominate the sector. Their tomo's eight European mancombined sales - split almost \$3.5bn. had tyre sales of around ufacturing plants. Goodyear equally - accounting for

Goodyear/Sumitomo Cooper Ties Michelin





1997, (Sbn) Michelin

try's global estimated \$75bn ity for this second tier far investigating possibilities. turnover.

The second-tier of players, Germany's Continental, Pirelli of Italy, until now Sumitomo, and Yokohama of Japan are smaller by an order of magnitude. Conti, fourth ranked in the world, has tyre sales little more than one-third that of the big three, at around \$4.4bn. Pirelli and Yokohama are

smaller yet, at around The creation of Goodyear/ Sumitomo will make viabil-

more problematical, despite the latter's protestations of having developed strategies allowing them to succeeed on their own.

Yokohama, smaller than Sumitomo in total sales but with a greater proportion concentrated inside Japan. may already be in Michelin's While speculation that for-

mal talks are under way has rationalisation. been discounted, people close to the industry insist that the pair are mutually far behind?

Against these fundamental industry shifts Bridgestone, too, must look to expand its

global reach and is also

understood to be probing acquisition possibilities. The Japanese tyre industry's profits have been savaged by the long slump in Japan's vehicle markets and collapsed consumer confidence and it is ripe for

One of the higgest questions is, can Europe's now be The transform

The Marie Street

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# There's one question you should ask about investing in an energy company of the future. Is it Reliant?

Introducing Reliant Energy.

The transformation of Houston Industries and its subsidiaries into one strong, energy services company.

It's the culmination of years of work.
Out of Houston Industries' steady
expansion in size and in capabilities,
a new company has emerged.

We are no longer various electric and natural gas entities with many names. Instead, we are one strong, national and international energy services company with expertise across the energy spectrum. We're Reliant Energy, the 4th largest

energy services company in the U.S.

Since 1866 we've invested in our company's growth. Today, we're the one to choose when looking for an energy investment. Our fast-growing capabilities in power generation, trading and marketing, and the wide range of energy services we provide, ensure our position as a leader in the industry for years to come.

True, our name is new. But our

proud heritage, commitment to strategic growth and aggressive pursuit of the future remain the same.



Effective February 8, 1999, HOU will trade as REI.

# Icelandic gene company may float

DeCode Genetics, Iceland's first biotechnology company, is considering a stock market flotation after winning approval from parliament to genetic database of the entire Icelandic population.

The company, set up two years ago with seed capital of \$12m, is expected to be valued at more than \$300m if it decides to proceed with a listing in New York and Rey-

genetic database, despite concern among some doctors and medical rights groups that the system might viowould be open to abuse.

The database, drawing on a gene pool that has not changed much since the Vikings arrived more than 1.000 years ago, will include medical and family records

international pharmaceutical groups after setting up the world's first genetic research centre, which offers

across an entire population. Kari Stefansson, chief executive, said the company was examining options to. finance the estimated \$200m cost of developing the dataroute," he said. Investment

value at IKr23bn (\$327m). Last year, the company

raised about \$30m by selling 20 per cent of its stock to tial listing. "We estimate the value of

said one banker, who declined to be named. Dr Stefansson declined to comment on the value fore-

share, compared with \$1 a

develop fully and five years before it could be marketed internationally.

DeCode's supporters say it could dramatically cut the cost of medical research because scientists would be able to use the database to the company at about \$11 a track individual disease compare DNA from medical records of families with a hereditary disposition to cer-

Czech upheaval Concern is growing over state's attitude to corporate sector, says Robert Anderson irst they threatened the on CEZ, the main power utiltelecommunications ity; and last week it removed both the main and supervimonopoly's chief execu-

Investors wary of

tive and changed the board. sory boards of Unipetrol, Then they removed the directors of the power utility. Finally, they recalled the boards of the dominant

ment has started to worry election last year, it has carried out a series of board changes in majority stateowned - but publicly quoted have to leave, such as the - companies. It has also engaged the foreign strategic partner of SPT Telecom, the in a tussle over similar

be expected every time a favours and install supportbut it's a question of extent." says Zdenek Bakala, head of Patria Finance investment motivated and it's the impression that counts with

In December, the Social over company policy. Democrat minority govern-

including chief executive Miroslav Tera, a former deputy minister of finance.

The new Czech govern- controlled companies, such as Ceska Sporiteina, the foreign investors. Since its main retail bank, are also Investors expected that some board members would

lav Klaus from CEZ. It was also inevitable that fixed-line telecom monopoly, a party that had been excluded from power since the return of democracy would want to pay back

ers in key positions. But, they argue, attempts three publicly-quoted compabank and an SPT board nies contradict the governmember. "This is worrying ment's rhetoric, which because it gives the impres- favours supporting foreign sion of being politically investors and promoting betrather than commercially ter corporate governance. They believe the changes are destabilising and could lead to more political control

The changes also directly ment, which took office in affect important strategic July, moved against SPT investors such as Telsource Telecom: last month it took - a consortium of Swisscom

and KPN of the Netherlands which owns 33.5 per cent of SPT - Agip of Italy, Conoco

of the US and Royal Dutch/ Shell, which together own 49 per cent of Unipetrol's main subsidiary, Ceska Rafinant oil refiner. "There is a misunder-

standing of the duties and responsibilities of joint stock companies," says Bessel Kok, president of Talsource and chief operating officer of

The government action Klaus which allowed the Social Democrats to form a government. The Civic Democrats have asked to be consulted on board changes.

nalysts are concerned because the three com-Tpanies are the most heavily capitalised and traded stocks on the Prague Stock Exchange. SPT in particular is regarded as a well- end of SPT's fixed-line

managed company that monopoly be brought forcould be destabilised by the board changes.

"I don't know why they're going after the goose that

The bitterness of the attacks against Telsource reflect the controversy over the 1995 privatisation which gave it operational control despite the state's 51 per A parliamentary commit-

tee and the police are investigating allegations that Mr Klaus's government was given kickbacks in return for choosing Telsource. The Civic Democrats and

the consortium, the largest foreign investor in the Czech Republic, reject the allega-Antonin Peltram, minister for transport and communi-

SPT's recent increase in tar-

iffs and suggested that the

know-how from abroad we do not need." It is clearly going to take time to repair the govern-ment's relationship with Tel-

source and foreign investors. This would be unfortunate at any time but economists say it is particularly so when the government is counting on foreign investors to lift

ward from the end of 2000 to

The conflict came to a

ment of Mr Peltram's nomi-

nee for chairman. Mr Pel-

tram demanded that the

telecom companies recall Mr

Kok. and said . Svatoslav

Novak, chief executive and a

former deputy minister.

would be removed at a gen-

respect our opinions," Mr

Peltram said after the board

meeting. "This is the kind of

"These people do not

eral meeting in June.

the end of this year.

# Europe expected

the world's first cholesterolexpected to announce plans today for a European launch this spring, with the UK market for "fat-busting" margarine and spreads

The move signals a concerted attempt by Raisio, the Finnish food and chemicals group behind Benecol, and the distributor, Johnson & Johnson of the US, to bring their product to market before arch-rival Unilever can launch a competing

Raisio and Johnson & Johnson - whose McNeil Consumer Healthcare holds the international production and marketing rights to Benecol - will tell analysts and institutional investors in London they are well placed to capture a significant market share among the estimated 100m people in Europe suffering from elevated cholesterol levels.

Up to now, both companie have been emphasising the

market. timetable in North America was disrupted by the intervention of the US Food and Drug Administration last

Following a three-month review, the FDA decided last week that Benecol and its Unilever rival should be approved as food ingredients rather than dietary supple

Raisio's share price has fallen by almost 50 per cent on fears that such a ruling would undermine the health claims and, thereby, the US sales of Benecol.

In Helsinki vesterday, Raisio shares rose 2.8 per cent to €7.25 - valuing the company at €1.2bn (\$1.36bn) -on market expectations that the group would address

# Benecol Groups tighten launch in grip on Omnitel

Olivetti of Italy and Mannesmann of Germany yesterday strengthened their grip on Omnitel, the fast growing Italian cellular telephone company, following the successful conclusion of their revised \$1.75bn cash bid for Cellular Communications International (Ccil) of

Ccil's principal asset is a 10.3 per cent stake in Omni-tel which will now lift the and Mannesmann in the Italian cellular phone venture to 50.3 per cent.

However, the Italian and German partners have given Bell Atlantic, the US telecommunications group, an option to acquire one-third of Ccil's 10.3 per cent Omni-

If, as expected, the US company exercises its option, the Olivetti-Mannesmann joint stake in Omnitel will slip to 46.8 per

Bell Atlantic, which recently lost out to Vodafone the US mobile phone compeny, already owns 19.7 per cent of Omnitel. This would rise to 23.1 per cent if it takes up the Ccil option. Olivetti and Mannesmann

originally bid \$85.75 a share

pto reward

groups subsequently raised a share and yesterday said about 68.6 per cent of Ccil outstanding shares had been tendered.

by merging Call into a wholly-owned subsidiary called into the right to receive \$80 a share in cash.

The acquisition one of the largest takeovers involving an Italian company in the Mannesmann a total of \$1.85bn including about \$100m of Call debt.

However, the cost will be reduced should Bell Atlantic exercise its option to acquire an additional Omnitel stake at the same \$90 a share offer

Olivetti and Mannesmann. advised in the transaction by Goldman Sachs and Lehman to consolidate their hold on Omnitel, Olivetti's most responsible for the Italian group's remarkable financial turnround in the last 12

# Dentsu links up with Nomura arm

Dentsu, Japan's biggest receive information related ing with Nomura Investor investment, the advertising iary, and taking a 10 per cant stake in the unit, writes Julie Hess in Tokyo. The sale price would be about

Y70m (3603.000), Dentsu said. The move is the latest by Dentsu to set up strategic alliances in an increasingly competitive market. Last December it took a minority stake in Leo Burnett, the US

agency said. It already offers some investor relation services through its corporate communication business.

Koichi Sonoda, corporate Dentsu, said: "The need for investor relations will increase and within the range of our business we would like to reinforce our abilities in this segment. In exchange, we will provide Under the deal, Dentsu's advertising expertise to

harder foreign

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WALL STREET SYSTEMS



# roups tighten ip on Omnitel

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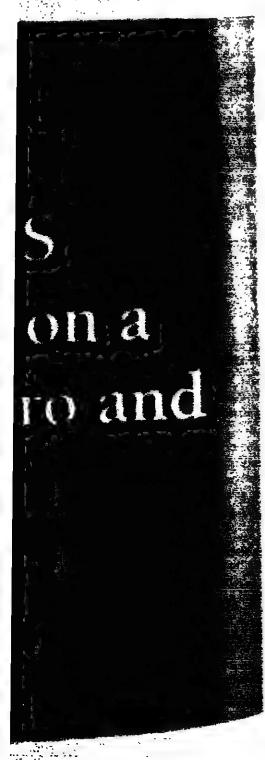
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# entsu links up ith Nomura arm

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#### COMPANIES & FINANCE: ASIA-PACIFIC

DEBT RESTRUCTURING SELECTIVE INTEREST PAYMENTS LATEST MOVE IN BATTLE WITH IFC

# TPI to reward loyal creditors | Ny Loston Linear in Hoosy Knog

begin paying interest this power of the IFC to call an month on loans to those creditors who have voted for remove Prachai Leophairaits \$3.2bn debt restructuring tana as TPI chief executive. plan, in the latest move in its battle with the International Finance Corporation, arm of the World Bank

TPI last made interest payments in September 1997. when it declared a unilateral moratorium on all its debts and on the \$1.2bn owed by TPI Polene, its affiliated cement company.

The controversial decision to reward supporters of its restructuring plan comes after the IFC convinced a litigation next week to

lift Smart

NTT to

holding

to 37%

By Tony Tassell in Manile

Nippon Telegraph and

Telephone has agreed to pay

\$214m to raise its stake in

Smart Communications, the

leading Philippine cellular

telecommunications opera-

tor, from 15 to 37 per cent.

Smart into PLDT.

by the end of March.

First Pacific said the deal

valued Smart at \$800m and

was likely to be completed

NTT will acquire \$42m of

Smart shares from Metro

Pacific, First Pacific's Philippine flagship company. It

will also acquire \$107m of shares directly from the Hong Kong conglomerate.

in addition, NTT will subscribe for \$65m of new Smart shares, increasing the total market value of Smart to

Alexandra Connor, direc-

on the traditional valuation

measure of price-earnings

ratios, the price paid by NTT

appeared steep, representing an approximate price-earnings multiple of nearly 100

on the basis of forecast 1998

accelerated default and

TPI said a "significant majority" of the company's 148 creditors, understood to the private-sector lending be between 60 per cent and 70 per cent by value, had backed the original plan. Under That law, the company needs support from 75 per cent of the creditors to force an agreement on the dissenting minority.

IFC controls about 15 per cent of the company's debt. and bankers said it had informed TPI it would begin

Thai Petrochemical Industry to the plan. Those amendsaid yesterday it would ments would increase the amendments were not made. In response, TPI said it

would begin to make interest payments this month to creditors who had supported its own version of the plan. "How much those payments will be and to whom we will make them will be disclosed shortly," the company said. One foreign banker in Thatland called the tactic "chimsy but effective".

A number of creditors particularly official export credit agencies, are thought to be following the IFC's lead but could be enticed by the payments offer to vote for the original plan.

its demands for amendments tees Mr Prachai gave for was legal action against Mr Prachat, bankers said.

Yet a high-profile attempt to enforce a personal guaranemment in a difficult position as it mounts a politically sensitive campaign in the senste to make such guarantees easier to

The World Bank has been urging the Thai government towards these changes, arguing that they are crucial for

Mr Prachai, a senator who has been leading the fight against the legal changes argues that they would mean too many That assets including his own, would be

shares would be part of Bang has put a strain on Nomura's huge equity hold-ings in "friendly" brokers and banks, causing

> For example, Kokusai's recent business success has ting strain on the link with

to foreign financial companies lies in its powerful franchise in the domestic retail market and its sweeping cost-cutting programme in PECETT PERIS.

that Nomura would oppose Kokusai to a potential rival, particularly a western

shareholders in Kokusai include Toyota, Toyo Trust and Sakura Bank, Sakura yesterday refused to

Kokussi shares closed yes

## The IFC's only option to Nomura ponders sale of Japanese equity stakes

By Gillian Tett in Tokyo

Nomura Securities, Japan's largest broker, admitted yesterday it was considering selling its equity stakes in several large Japanese com-panies before the end of the financial year.

The company refused to comment on the reason for the possible sales or identify the companies.

The deal had originally "We are reviewing our been flagged when Smart's investment holdings, and parent, First Pacific, the most of our holdings are in Hong Kong-based conglomerthe financial sector," it said. ate, announced a \$749m However, the review has acquisition of a controlling fuelled speculation on the future of Kokusai Securities, stake in Philippine Long Distance Telephone, the coun-Japan's fourth largest brotry's dominant fixed-line ker, which is 34 per cent owned by Nomura group

Analysts said the acquisition would raise funds for Several foreign investment First Pacific to help offset firms have already expressed the cost of the controlling strong interest in Kokusai, stake and was likely to be a the healthiest medium-size prelude to the merger of broker in Japan.

The review comes amid growing market concern over the scale of Nomura's losses in oversess markets. In particular, analysis suspect that any sale of its dal sector since Japan's Big closed at Y1,000, up Y25.

attempts to raise capital before the end of the finan-Paul Heaton, analyst at

Deutsche Morgan Grenfell, said: "If Nomura does not take action in the next few weeks, I think their reported capital adequacy ratio could fall to 200 per cent or so, which would be very poor for them."

Nomura has already admitted that it has sustained about Y250hn (\$2.2bn) losses in overseas markets in recent months, due to the financial turmoil in Russia and losses in its US property Analysis such as Mr Hea-

too believe these will leave Nomura recording a fullyear pre-tax loss of about Some analysts hope that the losses by Nomura, which

has considered itself the strongest of the Japanese brokers, may force it to speed up a rationalisation plong Anglo-American lines. Competition in the finan-

relationships to become fragmented

left its management seeking greater independence, put-The attraction of Kokusai

Until now it was assumed any sale of its shares in

other

terday at Y1,098, Y64 up on the day. Nomura shares

# Loan provisions surge at Bank of East Asia

by Rahel Jacob in Hong Kong

tor of research at Indosues Bank of East Asia, which WI Carr Securities, said that has been under the spotlight since Guangdong International Trust and Investment Corp (Gitic) collapsed in October because of its exposure to mainland entities, yesterday reported a 415 per cent increase in its provisions for had and doubtful

On other measures the deal appeared more fairly priced, representing an enterprise value - total market capitalisation plus debt per subscriber of about 1,400

Following the NTT purchase, Metro Pacific's economic interest in Smart the amount of equity it controls - will fall to 38 per cent. First Pacific's economic interest will decline to 18 per cent. Apart from the NTT stake, the remainder of the equity is held by Philippine investors and management. | chairman, but he admitted

that the bank was conable environment

Charges for bad and doubtful debts increased from HK\$292m · in 1997 to HK\$1.51bn (\$196m) for 1996. The bank said it had fully provided for loans to Gitic and had made across the board provisions for 5 per

cent of its China losn book and 20 per cent of its loans to other International Trust and investment Corpora-

"If you don't consider that conservative, I don't know what is," said David Li.

fronted with an unpredict-

Some analysts remain conthe rapidly deteriorating financial health of many Itics. The past few weeks have seen a number of mainland entities reporting problems making loan repay-

"It's all fine and well if nothing bad happens from here, but what if non-performing loans go from 4 per cent to 8 per cent?" said one

Bank of Rest Asia's nonperforming loans ratio rose to 4.1 per cent last year, against 1.2 per cent in 1997, Its China-related loans, including those to litics and red chips, amounted to 14.9

In December, Moody's, the US rating agency, down-

D+, citing its high exposure to China. Moody's estimated that most of the territory's cerned about the impact of larger banks had an exposure to China of about 5 per

> Mr I hlamed the fall in net profits from HK\$2.08bp to HR\$927.8m on weak demand for corporate and consumer loans in Hong Kong. Loans declined by 0.04 per cent in 1998, against a 30.4 per cent increase in

> Mr Li said he expected the economy to bottom in late 1999, but did not expect a revival in loan demand until asset prices had fallen another 15 per cent or more. Residential prices in Hong Kong have roughly halved since their peak in 1997.

The company announced a final dividend of 14 cents a share, giving a total dividend of 32 cents for the year, graded the bank's financial a decline of 56 per cent.

# Court blocks Aw Sing Tao sale

Tao, the Hong Kong-listed publishing and investment company she controls, were dealt a blow yesterday after the High Court rejected the buyer's application for a validation order.

Court approval for the deal was necessitated after bankruptcy petitions were filed in January against Miss Aw, who owns 50.04 per cent of Sing Tao. Miss Aw acknowledged that loans of HK\$270m (US\$34.8m) had been made by Ho Ying-chie, chief executive of Hong Kong

Yesterday's judgment revealed that Miss Aw, who spent much of last year trying to dispose of her stake in Sing Tao, withdrew from a deal with Lazard Asia Investment Management in

Miss Aw failed to attend the appointment for the signing of Lazard's proposal, and three days later entered into a transaction with China Enterprise Development Fund (CEDF), a Dub-



Sally Auc planned to sell 23% holding in Sing Teo

lin-listed fund whose inves- offer, which presiding Justors include Fidelity Far tice Dorsen Le Pichon East Fund. described as "infinitely more she spurned the Lazard spective of Miss Aw's unse-

Miss Aw did not say why advantageous from the per-

ity shareholders of Sing

After entering the CEDF deal, Miss Aw entered an "understanding" with the Aw Boon Haw Foundation, a charity set up by her father. In December, the Foundation agreed to sell Tiger Balm Gardens, a theme park built by her father, for HK\$100m. Miss Aw's apparent "understanding" was that the proceeds from the sale be used to buy some or all of her remaining shares, according to documents shown in

The judgment also gave an insight into the extent of Miss Aw's financial situation. Some 96 per cent of her holding, or 48 per cent of Sing Tao shares, have been pledged to banks.

The amount outstanding to secured creditors is HK\$110m. They are not deemed to be at risk, although Bankers Trust and ING Barings have both action if amounts owing are

not swiftly repaid. Unsecured creditors, said Justice Le Pichon, "are very

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# Tokyo urges foreign car group alliances

By Alexandra Harney in Tokyo

The Japanese trade ministry said yesterday it would strongly endorse an alliance between Japanese and foreign car manufacturers in an attempt to ensure Japan a an equity tie-up, could pave place in the global automo-

tive industry. Masao Omichi, director of the vehicle industry division of the Ministry of International Trade and Industry. said: "It would be very difficult to see how Japanese carmakers would be able to compete without an alliance with one of those groups

(General Motors, Ford Motor, DaimlerChrysler and Toyota Motor!"

The comments, coming days after Nissan Motor and DaimlerChrysler confirmed that they were in talks about the way for a shake-up in the Japanese car sector.

DaimlerChrysler a majority stake in Nissan Diesel, the troubled truck and engine unit. Renault, render management control the French carmaker, has confirmed it is talking to potential partners in Asia, including Nissan, and there

link between Mitsubishi represent a shift by the Japa-Motors and a US or Euro- nese government away from pean manufacturer.

Alliances between Japanese carmakers have until now been largely limited to small equity links or technical and manufacturing joint ventures, with the exception believed to be close to taking the US bought a 33.4 per cent stake in 1997. Analysts said companies were loath to surand the Japanese government has been concerned that mergers would lead to ing to leave Japanese car

supporting employment levels - and hugely inefficient sising core competencies and conforming to global cost

standards.
Mr Omichi said this could is of Marda, in which Ford of lead to bankruptcies of weaker companies.

However, Mr Omichi said the increased demand for environmental technologies and the move towards global consolidation were threatencompanies behind

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# Reckitt & Colman chief to step down

Vernon Sankey yesterday stepped down as chief executive of Reckitt & Colman following growing investor unease over the performance of the household products and household medicines six months. group he has led since 1992. Reckitt, an international company with 47 plants in 35

countries, has been buffeted

But a profits warning in November highlighting difficult trading in Latin America and Asia also identified problems in the US which led to a second round of downgrades by analysts in

The shares have drifted down from a high last April of £13 (\$21), touching 700p last month. Mr Sankey's surby the economic turmoil in prise resignation sent the emerging markets which price up 50%p to 870p, amid

tage of the uncertainty until ccessor is appointed. Bid rumours have repeat edly surfaced, with Unilever. Procter & Gamble, Johnson & Johnson and Kimberly-Clark often named as poten-

The company said the res ignation had been mutually agreed and heralded no further decline in the group's trading position.

tial huvers.

Mr Sankey, also a director account for a third of sales speculation that a bidder of Pearson, the owner of the

could emerge to take advan- Financial Times, will stay as non-executive director until the end of March to assist in receive a leaving package

worth about £900.000. Michael Turrell, global operations director, will be acting chief executive while headhunters search for a permanent successor. Under Mr Sankey's leader

English mustard. It acquired

ship. Reckitt sold Colmans of Norwich, its food business

division of Rastman Kodak. Mr Sankey's strategy was

to focus on one or two brands in selected categories and to transfer products successful in one market to others it operated in. He also focused growth on emerging

However, growth has slowed and the group has been particularly badly hit in Brazil which accounts for Lex, Page 16

per cent of profit. Alan Dalby, chairman said Mr Sankey had trans formed Reckitt into a global organisation with a first-

"It is important we now concentrate on the next phase of growth on behalf of our shareholders, customers employees and all other

class portfolio of brands.

# Licensing success lifts ARM

Strong sales of digital devices including mobile telephones, portable computers and games machines helped ARM Holdings, the Cambridge-based semiconductor design group, report strong maiden full-year results yesterday.

Pre-tax profits for the group, which was floated on the London and Nasdaq exchanges in April and has become a standard-bearer for British high technology, more than doubled to \$9.4m (\$15.4m) last year against and this helped soften pres-£4.5m in 1997 on turnover

RESULTS

which grew by 59 per cent to [42.3m (126.5m)]

The results mainly reflect ARM's success in licensing its powerful Risc (reduced instruction set computing) microchip designs to many of the world's largest semiconductor and consumer electronics groups. Product revenues, including licence fees, royalties and the sale of development systems were

£35.2m (£20.1m). Jonathan Brooks, finance director, said revenues in the fourth quarter were "better than we had anticipated" sure on operating margins.

Manufacturers that license ARM's processors, which are particularly well suited for use in small mobile devices where low power consumption is important, delivered more than 50m devices containing them last year, com-

pared with less than 10m in

the whole of 1997.

About 70 per cent of the sales were in digital mobile phones built by Nokia, Ericsson and other manufacturers, but ARM chips are also used in games machines including Sega's new Dreamcast console, set-top boxes, networking products and a

new Hewlett Packard porta-

During the year ARM nology with six companies Matsushita, Seiko Epson and Toshiba of Japan, Hewlett Packard of the US and two unidentified groups, one headquartered in the US, the other in Europe.

It also signed its first licensing agreement with Intel. the world's largest serviconductor group, enabling Intel to manufacture, supply and develop its StrongARM range of microprocesso

ARM's shares, which floated at 574p, closed up 95p at £18.20 in London.

	Thereof	eni (gas)		e-tax R (fam)		5 (st	Current payerent (b)	Date of payment	Dividences Corresponding dividence	Total Re-	Total heat
Yr to Dec 31	42.3	(26.6)	10.2	(5.01 )	14.9	(9.3 )				-	_
Yr to Oct 31	485,4	(353 )	28.1	(20.5)	16.8+	(11.75)	3.25	Apr 8	2.5	4.78	2.75
ins to flor 30	146.3	(152.5)	3.4	(3.81 )	2.79	(3.36)	2.15	Apr 8	2.15		5.6
ing to Day 31	88.2	(22.8 )	0.707	(0.464L)	2.91	281					-
. Yr to Oct 31	11	(3.97)	0.055	(1.961.9)	0.12	(6.61L )	-		-	-	-
in to Dec 31	140.9	(149.9 )	4,424	(4.28)	8.6	(8.4.)	1.5	4	1,2	-	4.2
Yr to Sept 30	0.63	(0.64)	2.26L	2.26L)	6.34	(8.1L )				-	_
to Dec 31+	3.26	(2.24)	0.506	(1.03L)	8.95t	(7.26L)	-			-	-
Yr to Nov 30	206.4	(377 )	14.4♥	(16.3L <b>4</b> )	12.5	(23.3L)	3.5	May B	29		42
		¥ (p)		irolehiu iga (liim)		5 (p)	Correct payment (p)	Data of payment	Consupording chickens	Total for	Total had year
in Dec 31 +	44.85	(44.3 )	8.56	(4.36 )	4.25+	(3.5 )	1.6261	Feb 26	1.5	-	4.45
to Dec 31 ±	78.48	(56.28	8.56	4.36	4,251	(3.5	1.6291	Feb 25	1.5		4.45
Yr to Dec 31	395	(422.1	3.58	(3.51 )	10.34	(10.22	7.2	1.0	7	10.5	10.2

Esmingu abown basic. Dividencie shown net. Figures in brackets are for corresponding period. **A**After except **©**Aim stock. • Comparatives restated. \$Third Intertm; makes 3.375p to date.

## **US** predators circle Weir

Weir Group has received an unsolicited approach from a US company interested principally in acquiring its pumpmaking operation. However, it is believed

Weir, based in Scotland and one of the world's 10 biggest pumpmakers, will oppose the approach because it fails to adequately reflect the group's value.

engineers seeking to take dvantage of the relative ess of UK counterparts. Weir shares closed at 294%p, up 62%p, giving a market capitalisation of just under £600m (\$984m).

The potential bidder is thought to be one of five US companies: ITT Industries. Flowserve, idex, Textron and ingersoll-Dresser Pump.

The indicative offer is believed to value Weir at market. Pumps account for about 300p a share, which just under half of group compares unfavourably with analysts' estimates of its hreak-up value. It also sits uneasily with the view of Sir Ron Garrick, chief executive,

"would be in the Guin ness Book of Records". Weir is known to be seeking to expand aggressively

itself, and has spent about \$200m on 20 acquisitions in the past four years. In common with other UK engineers, Weir's share price

of any bidder a premium

collapsed last year on wor ries about the effects of slow ing world demand and the The approach comes after strength of the pound, a series of takeovers by US Before yesterday's prospective multiple of out 10.5 times earnings

Weir, which made pre-tar profits last year of 250.1m, up 23 per cent, on sales of 2637m, is expected to hold up well this year in spite of tough trading conditions.

One analyst said Weir was an attractive target for a US engineer at a time of consolidation in the world; pump sales, and the Americas represent its main market.

But analysts thought a bid of 300p per share would be unlikely to succeed.

#### Tarmac to split into two units

By Charles Pretzlik

yesterday announced plans to split into two groups concentrating on aggregates and construction Analysts said this increased the likelihood that Tarmac which failed to strike a merger agreement with Aggregate Industries last year, would link with a rival Sir Neville Simms, chief executive, said: "The board has, for some time, been aware that additional value could be created for our shareholders by separating

our two business streams." He said Tarmac's board would continue to seek opportunities for rationalisa tion. The group has been under pressure from shareholders to find a partner since talks about a £1.8hn merger with Aggregate troke down acrimoniously. But Sir Neville added: "I is clear to me that we're not going to make any further progress in our discussions with Aggregate industries."

Mike Betts, an analyst at JP Morgan, welcomed the move. "Contracting is dragging down the value of the construction business held back Tarmac's shares by about 30 per cent. They rose 1%p yesterday to 117p.

Analysts said the busine could be worth about £400m (\$656m) as a separatelyquoted company. It made operating profits of £29m on ales of £1.6bm in 1997. The business has been

moving away from traditional construction activities, which have suffered from tiny margins, and focusing increasingly on higher-margin maintenance and facilities menagement.

Analysts believe the construction company would require a cash injection from Tarmac of about £150m. Mr Betts said he feared this could leave it with too much debt to compete effectively for acquisitions.

Sir Neville said: "The capital structures of both businesses will be competitive with their peer groups." Sir Neville is expected to

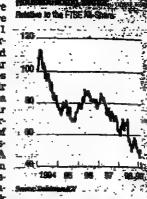
lead the construction division when it is demerged in about five months. Roy Harrison, a director in charge of the heavy building materials division, is expected to run the aggregates business.

The aggregates business. which would retain the Tar. FISE Al-Shore mac name, generated operating profits before exceptional items of £142m on sales of

# Housebuilders

COMMENT

Why do housebuilders remain quoted? They are now so small - the entire sector accounts for under 1 per cent of the UK stock market - that they have slipped below fund managers' radar screens. And unloved does not begin to describe their lowly valuations. Despite a recent mini-rally, their ward price/earnings ratios of around eight and large discounts to net asset values. A re-rating in this low-inflation pect. Some of these companies should therefore think



as slip as focus

shout going private. Their public status is not providing them with cheap capital, since few dare launch rights issues at these levels. Neither is a quote a ticket to the consolidation party. There is little scope for economies of scale because being bigger does not guarantee better prices from even more fragmented, local contractors

Size may even be a disadvantage. Volume housebuilders need huge tracts of land, which are not easy to negotiate. given tight planning restrictions. But if the stock market does not love housebuilders, venture capitalists may not like them either. They are not particularly cash generative and an easy exit, via flotation, looks improbable. But with leverage low in the sector, the more confident managements could surely become their own venture capitalists: gearing up to take the company private and then building out the land bank to pay down the debt. That certainly sounds more fun than watching the shares languish.

The UK, consultants never tire of telling us, is not fertile ground for the sort of entrepreneurship cultivated in Silicon Valley. Acorn, however, has sprouted one such oddity: a successful UK-based chip design company. Note the double disadvantage: stuffy Cambridge versus gung-ho California and microchips - no easy industry in recent years, But ARM - now valued at £890m versus last year's £264m flotation is in the right chips: those used in digital mobile phones and set-top boxes. Apple has also sold part of its stake, which may have made it easier for ARM to license its technology far and wide, from Intel to Matsushita. ARM may, like Psion, not be large enough to survive entirely independently. But large bidders will need to take care they do not lose ARM's

#### **NEWS DIGEST**

TRANSPORT

#### **Eurotunnel cuts debt cost** with note repurchase

Euroturnel has paid £38m (\$62m) to repurchase £134m of loan notes issued as part of its financial restructuring last year. The move will provide an exceptional profit of some 290m and reduce its annual interest charge by a further

The company, which operates the Channel tunnel and ander Rinci Traigint Shuttie Trains. I make use of the large discount at which the notes traded to cut its debt costs, it has bought back 11.85 per cent of the £1.13bn of participating loan notes issued last April, reducing total debt by 2 per cent.

The fixed coupon on the notes is only 1 per cent but from 2006 holders would have been entitled to a percentage - initially 30 per cent - of net cash flow after financing charges. The repurchase will reduce the entitlement to 26.45 per cent. This deal comes six weeks after the company concluded negotiations with its banks to refinance £238m of senior debt. reducing its annual interest charge by £5.5m.

The difference between the nominal cost of the notes and the purchase price is £96m but Eurotunnel said it had calculated an exceptional profit of 290m after allowing for charges and the exchange rate at the time the transfer was made. Charles Butchelor

#### BUILDING MATERIALS

#### Blue Circle disposal for £253m

Blue Circle, the building materials group, has sold its bathrooms division, including Armitage Shanks, to American Standard, the diversified manufacturer, for \$253m (\$415m) cash. The deal to combine the US group's bathrooms and plumbing arm with the Blue Circle businesses will create Europe's biggest bathroom products company with an annual turnover of more than \$1bn. Blue Circle's bathroom division also includes Ceramica Dolomite, the Italian manufacturer. American Standard owns the Ideal Standard bathrooms brand in Europe.

The sale price was seen by analysts as being at the top end of expecations. Lazard Brothers arranged the auction, Lucy Smy

#### CONSTRUCTION

#### **Crest Nicholson optimistic**

A note of optimism returned to the housebuilding sector yesterday as Crest Nicholson reported a 37 per cent jump In pre-tax profits for 1998 and predicted an "excellent" 1999. Pre-tax profits rose from £20.5m to £28.1m (\$46m) in the year to October 31. Crest said its performance was helped by the interest

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rate cuts since October, which had improved consumer confidence and damped fears of recession.

Mike Foster, analyst at Credit Lyonnais, expects pre-tax profits of 232m this year with further growth next year.

MONTHLY AVE	RAGES OF	STOCK	INDICES	
	Japany	December	November	October
FISE Actuaries Indices				
FTSE 100	5975.8	5688.3	5595.6	5063,8
FTSE 250	4904.9	4761.9	4885.0	4516.2
FTSE 380	2814.0	2686.2	2661.4	2417,2
FTSE Non-Pleanchal	2778.42	2646.90	2630.55	2413.66
FTSE Pinancial Group	5145.5	4948.99	4877.76	4319.56
FTSE All-Share	2714.51	2591.38	2571.19	2337.61
FISE Eurotop 100	2795.78	2617,70	2565.69	2266.27
FTSE Eurotop 300	1212.03	1133.97	1110.10	987,24
FUSEP-A World Index	310.56	296.68	288.06	260,34
FISE Indices				
FT Gavt Securities	116.43	114.06	111.99	111.32
FT Fixed Interest	157.70	155,71	151,17	149.65
FT 30	<b>3</b> 533.1	3431.8	3383.8	3043.2
FISE Gold Milnes	978.40	960.02	1109.02	1137.13
SEAQ Bargains (5.00pm)	76,998	53,997	63,865	63,039
	dighest close	Jan	land do	Jan .
FISE 100 .	6148.8 Btf		3202 14	R .
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FTSE 350	2888.7-80	1	2749.0 14	ħ

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# ShinWon Corporation company incorporated with limited liability under the loses of Koreal

Notice of a Meeting of the holders of the

U.S. \$18,000,000 0.5 per cent. Convertible Bonds due 2008

of the Issuer (the "Bondholders" and the "Bonds" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Bi called blen commonal by the laster will be held at the Conference Rosen. Sharlfron Building, 532 Downbacking, Mapo-lou, Secial, Korea on Thursday,

25th February, 1999 or 10.00 Ltm. (Secul time) for the purpose of consolering and, if thought fit, pussing the following Resolution which will be proposed as an Extraordinary Resolution on accordance with the proposed for the Trust December, 1993 (the "Trust December, 1993) (the "Trust December, 1993) (the "Trust December, 1994) (the "Trust December, 1995) (the "T EXTRAORDINARY RESOLUTION

"THAT this Mexing of the holders of the U.S. \$18,000,000 0.5 per cent. Convertible 8 and due 2006 of Shin Wan Corporate in (the "Break" and the "house" imprecised by the Trust Doed dued 7th December, 1993 (the "Trust Deed") made between the leaser and Breaker Trust of Company Limited (the "Trust of ") as trustee is a the holders of the Break (the "Breakholders" and the holders of the mitters is superis appearating thereto (the "Companholders" and the "Companholders" and the holders are the proposals to which this Extraordinary Resolution relates (the "Proposals") which are terror in the Explanatory Memory Memory and and conditions set one themselved by the Leaser to the Breakholders and their implementation on and subject to the terms and conditions set one themselved. ymetrum even, medification, abugation, variation or compromise of, or arrangement in respect of, the rights of the Bondashiers and the Componholders against the laster, whether such rights shall array under the True Dend or the Bonda or otherwise, involved in or resulting from the majorisation of the Propositional and that Extraordinary Revolution; and

authorized directioned requests the Trustee to concur in the implementation of the Proposition and this Extraordinary Resolution and, in under to give effect thereto, fortherich to execute a Se Trust Deed in the form of the draft produced to the Meeting and for the purpose of identification suggest by the Chamman there if with such amendments (if any) thereto as the Touttee shall require.".

The attention of Boralholders is drawn to the fact that on 24th November, 1998 the forcer commenced is without program pursuant to which 95 local conditions of the forcer appeal to restrictive certain habitation of the bours. The bours appeal to restrictive certain habitation of the bours. The bours are presently in no praction to redeem the Boral pursuant to the open (which was exercised by all Boralholders) to require all Borals to be redeemed at 125.95 per cent. of their restriction and consistent of the Borals to be redeemed at 125.95 per cent. Of the Terms and Consistent of the Borals to provide, inter-also, the following: (a) the cancellate in it the infigure in it the lower to repay the Bonds in 7th December, 1995 and the remainigneer of the final materity date of the Bonds of Het December, 2006.

(b) the increase in the aggregate remainal amount of the B-mals from U.S. \$18,000,000 to U.S. \$22,671,000 representing the original aggregate nominal amount of the B-mals plus the premium of 25.95 (c) the shares into which the Bands are convertible being changed from Non-vicing Shares to Common Shares of the Issuer:

tell the adjustment of the sixtycroson price to KRW5.000 per Common Share and the increase in the tweed exchange use for translating the U.S. dellar nominal amount of the Bonds into KRW500 to = U.S. 51.00 (the latter being the exchange rate on 7th December, 1998);

(e) an increase in the coupon from 0.5 per cent, per annum to 1 per cent, per annum, payable on the increased numeral annum of the Borok;

(f) the remaintenant of the put option under Cavalition 7(D) of the Borish but so that, if exercised, Braditividges will be reputal on 30th June, 2003 at a radiompto in price of U.S. 50,595.5 per Band in the (g) certain adjustments to the convenion price to be excluded and certain potential wrents of definit met to be meaned as such. The loarer has prepared an Explanation Measurandom (the "Explanation Measurandom") chief 3rd February, 1999 addressed to the Bundholders which is referred to as the Extraordinary Resolution are out above. It explains in greater detail the background to, and reasons for, and gives full details of the Proposals. Copies of the Explanation will be delicered to Morgan Guerrary Trace Compare of New York. Prevals office, as operator of the Eurocker") and Codelbuik for outside transmoster to their account to dies outside an innerest as the Bonds.

Compared of New York. Personal of the gardent of the gardent reported. The attention of the subsidiers or paracularly drawn to the question requirements. But an adjustmed Meeting which is set out an paragraph 2 of "Voting and Question below. Having segard not requirements. But and below, so soon as possible, or to attend to below, so soon as possible, or to attend to person. Copies of the Time Deed (including the Term and Conditions of the Bunds), the current data of the Supplemental Trust Deed to below, so soon as possible, or to attend to person telung to the working the Term and Condition of the Bunds), the current data of the Supplemental Trust Deed to below, so soon as possible, or to attend to be accument telung to the working the Term and Condition of the Bunds, the current data of the Supplemental Trust Deed to the Extraordina can be obtained by the Bonds idless from the document telung to the working to the Paying stal Contention of the Paying stal Contention of the Paying stal Contention of the Bunds is the Paying stal Contention of the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Rosen. Stap Paying the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and at the Contention Paying to the Bunds of the Meeting and the Paying the Meeting the Bunds of the Meeting and the Bunds of the Bunds

In accordance with revisal practice, the Tractice expresses in copinion to to the interest of the Proposals to presented to the Evaluation does in the Explanatory Memorandom and announced above, it has, however, authorised it to be stared that, on the bases in copinion to the information contained in the Explanatory Memorandom twitch it recommends Bondholders to read carefully), in this Nonce and in its notice to Bondholders dated 4th December, 1993, it has no objection to the Estrabulitary Residences on our above being put to the Bondholders for their consideration. The Tractice has however, not been involved in formulation; the Proposals and makes no representation that all relevant notices been declared to Bondholders in the Explanatory Memorandom analyse such notices. Accordingly, the Tractice upper Bondholders who are in any doubt as to the impact of the implementation of the Proposals to seek their court traineral above.

Borally show having questions regarding the Extraordinary Resolution set out above or the Propositions a stact Steve Chough of the Jouer directly on telephone 4822 3274 7472.

VOTING AND OUORUM 1 A Bendholder webute to arrend and vote at the Meeting in person must produce at the Meeting either the Bond(s), is a valid voting certificate or valid voting certificate or valid voting certificate.

Conversion Agents of the service of the feeting in respect of mission whose to vive.

A forallicident not wishing to attend and vive at the Meeting in person may either deliver his Bond(s) as a oring certificate(s) to the person whom he wishes to attend on his behalf or give a voting institution without the viving institution from the v

and whe at the Meeting in accordance with his inspirations.

Until the time being 46 hours before the time appearance for holding the Meeting (or, if applicable, any adjustment such Meeting), but not thereafter, Bonds may be deposited with any Paying and Conversion Agents of their he satestation of such Paying and Conversion Agents of such Paying and Conversion Agents of the relative Meeting. Any Bond(s) or deposited or held will be released at the confusion of the Meeting (or, if applicable, any adjustment with Meeting) or upon autemates of the vorting certificates) in the Paying and Conversion Agent who taxed the same or, not less than 48 hours before the time for which the Meeting (or, if applicable, any adjustment such Meeting) or or extended, upon the surrender to the Paying and Conversion Agent of the vorting immunion incorpely) is used by such Paying and Conversion Agent or respect of each such deposited by with a former or adjustment of the vorting and Conversion Agent or the favor and Conversion Agent or the paying and Conversion Agent or the meeting menutation of the vorting menutation has been round france by such Paying and Conversion Agent to the large of the meeting menutation of the vorting menutation has been round france by such Paying and Conversion Agent to the large of the meeting menutation of the vorting menutation has been round france by such Paying and Conversion Agent to the large of the meeting menutation of the vorting menutation has been round france by such Paying and Conversion Agent to the large of the meeting menutation of the vorting menutation of the vorting menutation and the paying and Conversion Agent to the large of the vorting menutation and the paying and Conversion Agent to the large of the vorting menutation and the payin

The quarum required at the Meeting as two or more persons present holding Bonds or voting certificates or being provides and being or representing in the aggregate the holders of over 66 per cent. In comband amount of the Bonds for the time being constanding. If, within half-in-half after the time appointed for holding the Meeting, a quarum is not present, the Meeting will stand adjustment and the Extraordinary Resolution will be considered at an adjustment Meeting in taxe of which will be given to the Bondsholders). The quarum at such an adjustment Meeting will be one or more persons present holding Bonds or voting certificates or being provies and being or representing in the aggregate the holders of over 33 per cent. In nominal adjustment

er the posture when the more resident and the decaded in the trea metance by a show or humb united a pull reduct demanded by the Chairman of the Meeting or by the James or by one or stone persons. Every question submitted in the secreting where occurred in the first in measurement in the appropriate brokers of holders of the first in the person had large of more Boths or writing certificates or being a proxy or process and being or representing in the appropriate brokers of holders of more less than 2 per cept, in measured attached their material and their material and their materials and their m we one vision respect of each U.S. \$5,000 in resound amount of the Borks upproduced in represented by the vising correlations up to discoder in respect of which he is a private

To be passed, the Euros olimary Resolution requires a monority in favour consisting of past less than three-fourths of the vines care thereon. If passed, the Euroscalinary Resolution will be binding upon all the Bondholders, whether or not present at such Meeting and whether or not covering, and upon all the Coup wholders. The Bondholders will be particed by publication in the Fanancal Times of another leading newspaper of general circulation in Lumbon and by publication in the Lanendarger Work or or number leading newspaper of general circulation in Luxurbourger's the result of voting on the Extraordinary Resolution within 14 they so four freedy being known, but may contact the Principal Papagental Conversion. Agent at any time tothough the conclusion of the Meeting for the purpose of accertaining whether or not the Extraordinary Resolution was passed at the Meeting.

Principal Paying and Conversion Agent Rankers Trust Company 1 Appoid Street, Broadcare Lundon ECZA 2HE

Other Paying and Conversion Agents Bankers Trust Luxemb and S.A. 14 Baderanl F.D. Rosserek

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Bankers Trustee Company Limited 1 Appoid Street, Broadgate London EC2A 2HE

537 Danta-dang, Mapa-kai, Second, Korea Bundle there whose Bunds are held by Cedelburk or Eurochem double contact the inflaming for further advantaments Cedellord. Corporate Action Department (relephone Luxemburg + 352 449 928 067, relex 2791).

Euroclear Canach Operators Department (relephone Branch + 322 224 2100, telex 61025).

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#### EURO PRICES

# Housebuilders

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#### NEWS DIGEST

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#### MATERIALS

#### Circle disposal for £253m Course, the midding replanate year.

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EQUITIES

# Stocks slip as focus back on fundamentals

**EUROPEAN OVERVIEW** By Vincent Boland

sectors down as investors bank chief was ousted. weighed the outlook for fur-

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Section.

Currency market trends setting committee. European stock markets were also hitting sentiment. surge as the focus returned that sent Wall Street tummore to fundamentals than bling in early trading, and Some corporate results dissome of the previous day's 22.02 lower at 2.8 appointed, sending selected gains as yet another central the FTSE Ebloc

a signari garina ka

slightly bigger losses. The euro-zone stock The euro, meanwhile, 11.65 at 1,023.47

Sectors like telecommuni- LVMH, which rose €6.20 to

Construction and house-

FISE Actuaries Share Indiaes European series												
iels 02 Elitera II Regional Artista	Euro Index	Day's	chaage points	Yield gross %	xd adj ytd	Total retn (Euro) €						
TSE Euroteo 300	1224.70	-0.00	-7.0	2.22	0.52	1261.EI						
TSE Eurotop 100	2811.24	-0.78	-22:02	2.27	1,78	1008.37						
TSE Entoc 100	1023.47	-1.13	-11.05	2.02	0,39	1039.30						
TSE EuroMid	1187 <i>.</i> 74	+0.20	+4.64	2.80	1.12	1231.89						
TSE Extellid Ebloc	1185.35	-0.78	-6.40	2.31	2.00	1221.96						
TSE Eurobild Br UK	1232,77	-0.59	-7.37	2.18	0.90	1256.52						
TSE Enmirer 300 Benier												
40.00	1290.57	-1.05	-13.30	1.97	0.89	1308.69						
	1142 34	-0.12	-1.41	2.69	OTEO .	1199.95						
inge Ex-Eurobica	1179.47	4.75	-1.81	2,49	0.36	1222.04						
samoe Ex-UK	1272.05	-0.87	-11.12	2.00	0.54	1296.41						
TSE Eurobes Industry B	ciers											
ESOCIECES	814.90	+0.29	+2.32	1.54	0.94	853.11						
fining	774.23	+0.12	+0.96	4.54	0.00	790.57						
& Gass	785,91	46.20	+2.29	1.50	0.94	805.88						
ASIC INDUSTRIES	1075.30	-0.07	-11.73	2.70	0.86	1099.19						
hemicsla	841.21	-0.28	-2.33	2.67	0.65	856.75						
THE RESERVE	935.03	+0.87	+8.02	2.50	1.33	944.50						
Waster & Prince	367.77	-0.54	-4.74	3,58	0,00	10724						
ENERAL DEUSTRALS	1144.62	-0.15	-1.71	2.43	5.61	1168.58						
Intersect & Defence	864.96	+0.74	46.20	1.90	0.00	876.90						
keraliad industrials	(0(1.30)	-0.87	-6.84	1.00	0.00	1004.43						
Adjustic & Black Earth	1005.26	+0.42	+4.16	1,84	0.18	1016.92						
Company & Michigan	1029.66	+0.03	+0.20	3.86	1.18	1045.15						
TOLICAL CONS GODOS	1329,41	-0.80	-7.92	2.50	0.00	1256.74						
timedies	984.62	-1.61	-10.08	2.35	0.00	983.75						
bustolii Soode & Toos	1259.28	+1.82	+22.52	3.30	0.00	127040						

Open for	CHERAL BOUSTEALS	1144.62	-0.15	-1.71	2.43	
84266	November & Defence	864.96	+0.74	45,79	1.90	
92185	Diversified Industrials	(037.30)	-0.87	-6.84	1.00	
51474	Backwork: A Black Back	1005.28	+0.42	+4.16	1,84	
63575	Sympotony & Machinery	1029.88	+0.03	+0.20	3.86	
	FYCLICAL CONS GOODS	1320,41	-0.80	-7.92	2.50	
Open int.	Actomobiles	984.62	-7.01	-10.08	2.35	
163203	Houstold Goods & Then	1259.28	+1.82	+22.5%	3.30	
136618	MON-CYC CONS GOODS	1241.10	-1.20	-15個	1.46	
126851 101763	Baverages	943.14	-1.88	-18.03	2.57	
101100	FOOD PRODUCES & President	923.43	-0.89	-8.34	1.00	
	Health	874.57	-2.16	-(9.20	8.70	
	Packaging	778.85	+1.17	+8.07	1.18	
	Personal Gard & Har Photos	1125.31	11.43	+4.83	0.86	
Page	Photoacculicus.	1138.34	-1.48	-17.0	1.72	
Dec	Tobecco	1468.36	-041	-6.09	2.21	
0.075	CYCLICAL SHRACES	1297.50	-0.58	∺7.35	5.25	
	Distributors	697.57	+0.28	+1.05	4.23	
0.210	Constal Retailers	1073.28	+0.40	+4.23	2.97	
	Labora Galerina & Holom	824.75	+0.111	+7.41	2.48	
	PROBLEM & Provingment	1177,78	-2.42	-29.19	1.98	
	Rests, Pube & Browning	867.38	-1.5	-10.82	3.23	
Open let.	Support Services	1108.55	+0.84	+9.26	1.34	
	Timeger	(の人)等	-0.57	-5.5B	2.55	
0	MON-CYCLICAL SERVE	1360.86	-1.23	-17.01	1.47	
	Flod & One Finalism	1039.35	+0.04	+0.42	1.96	
	Telecommunications Garya	(MA	-1.51	-20.57	1.35	
	MILITER	1507.68	-1.02	-15.58	2.05	

+0.82 -1.32 -0.75 +0.16 , +1.25 -1.02 1.36 1.61 1.78 3.56 2.51 1221.38 1001.93 171/16 1701.98 946.47 3810.21 3440.35 3870.46 2433.07 3841.43 3807.04 2547.15 3885.36 2475.23 49 1220.48 1281.22 1315.36 306.50 201.07 2419.23

ther earnings downturns as remained weak ahead of this the reporting season contin- week's meeting of the Euro- cations and media, which €218.20. pean Central Bank's policy- have led the surge in share The FTSE Eurotop 300 among the main losers as succumbed to profit-taking The yen continued its climb index of leading shares fell investors nibbled at cycli-

yesterday after their recent against the dollar, a factor 7.62 to 1,224.70 while less cals, which have been friend-down €3.60 at €149.40. diversified indices posted less recently. the Brazilian Real reversed FISE Eurotop 100 index was hold goods stocks climbed by

2,811.24 to c 100 indexs ended of 7	ely, wi	wo per th much a latter ump in			
ries Sha					n series
ander win	17.5	thy are	Talluta o	Actuati	:5 -
Bara Index	Dey's	chaage points	Yield gross %	at at	Total retn (Euro) €
1224.70 2811.24 1023.47 1187.74 1185.35 1232.77	-0.78 -0.78 -1.13 +0.39 -0.78 -0.59	-7.00 -22.00 -11.05 +4.64 -0.40 -7.37	2.25 2.27 2.02 2.80 2.31 2.18	0.52 1,78 0,39 1.12 1,81 0,90	1261_61 1008.37 1039.30 1231.89 1221.96 1256.52
1290.57 1142.34 1179.47 1272.05	-1.05 -0.12 -4.15 -0.67	-13.00 -1.41 -1.81 -11.12	1,97 2,69 2,49 2,00	0.89 0.80 0.36 0.54	1308.89 1199.95 1222.04 1296.41
Beciers					-

FTSE Entatop 300 Begion	\$					
-	1290.57	-1.05	-13.15	1,97	0.59	1308.69
	1142.34	-0.12	-1.41	2,69	OTEM .	1199.95
Europe Ex-Eurobiec	1179.47	-4.75	-1.81	2,49	0,36	1222.04
Europe Ex-UK	1272.05	-0.87	11,12	2.00	0.54	1296,41
FTSE Eurolop Industry Bu	ciers					
RESOURCES	814.90	+0.29	+2.32	1.54	0.94	853,11
Mining	774.23	+0.12	+0.96	4.54	0.00	790.57
02 & Gas .	785,91	+6.20	+2.29	1.51	0.94	805.88
BASIC INDUSTRIES	1075.38	-0.07	-1.73	2.70	0.86	1099.19
Chemicals	841.21	-0.28	-233	2,67	0.65	856.75
Commence & St. American	935.03	+0.87	+8.02	2,50	1.33	944.30
Person & Person	367.77	-0.54	-4.74	3,58	0,00	777.5
CENERAL DEDISTRIALS	1144.02	-0.15	-1.71	2.43	2.61	1168.58
Names of Defence	864.96	+0.74	46.28	1.90	0.00	876.90
Diversified industrials	(0(1:30)	-9.87	-6.84	1.00	0.00	1004.43
Satirant: A Black Early	1005.26	+0.42	+4.16	1,84	0.18	1016.92
Expension & Machinery	1029.68	+0.03	+0.20	3,86	1.16	10ME-15
FYCLICAL CONS 60008	1320.41	-0.80	-7.92	2.50	0.00	1356.74
/kitoenobiles	984.62	-T.\$1	-10.08	2.35	0.00	983.75
Huyatalii finadi & Toqu	1259.28	+1.62	+22.5%	3.30	0.00	1277440
MON-CYC COMS GOODS	1241.10	-1.20	-15.65	1,46	0.95	1275.29
Baverages	943.14	-1.86	-18.03	2.67	0.00	963.50
FOOD PROGRAM & President	923.48	-0.89	-8.34	1.00	0.00	934.28
Health	874.57	-2.16	-(9.20	6.70	0,00	887.65
Peckaging	778.85	+1.17	+8.07	1.18	0.00	779.82
Personal Gard & Har Physic		11.43	+4.83	0.86	0.00	1135.03
Pharmaceuticals	1138.34	-1.48	-17.0	1.72	0.00	1144.53
Tobecco	1468.36	-041	-6.09	2.21	1.42	1497.76
CYCLICAL SHRIKES	1297.50	-0.58	÷7.35	2.35	0.76	1936.20
Distributors	697.67	+0.28	+1.05	4.23	0.00	7(5.5)
General Retailors	1073.28	+0.40	+4.23	2.97	1.06	1096.53
Leipus diderimi & Holom	824.76	+0.171	+7.41	2.48	8.02	841.91
A Protography	1177,78	-2.42	-29.19	1.96	0.00	1190,38
Repts, Pube & Browning	BET 38	-1.5	-10.82	3.23	2.84	<b>895.90</b>
Support Services	1108.55	+0.84	+9.25	1.34	0.00	1120.31
Tiesper:	後に至	-0.57	-5.88	2.55	0.91	1003.23
HON-CYCLICAL SERVE	1380.86	-1.23	-17.01	1,47	0.44	7401.15
Plod & One Street	1059.35	+0.04	+0.42	1.96	0.61	1076.06
Telecommunications farms	ME	-1.51	-20.57	1.36	0.89	1364.73
HTM DIESE	1607.68	=1.09	-15.58	2.05	3.36	1802.57

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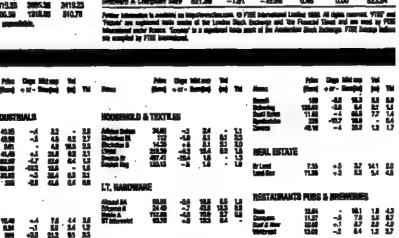
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Bank stocks were mixed prices so far this year, were after Monday's big French deal, with Société Générale, which is taking over Paribas,

> BNP fell €1 to €77 but is now emerging as a favourite to get a big slice of Crédit Lyonnais, which is to be sold by the government this year. BSkyB was down 40 cents at €6.43 amid reports that it would have to make big conessions on UK football TV ights in order to take over Manchester United. Canal Plus slipped €5.80 to €272.20. Japan

Automobile stocks were mong the main victims of profit-taking. Renault tumoled €3.30 to €46 while Peugeot was down €5 at

Among insurers, Axa fell 64.60 to €122 and the sector. going through a thorough round of consolidation, was L3 per cent lower.

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T .	3.97	4.01	3.97	4.01	5.04	5.08	5.48	8.51	2.37	2.40	ADB	10/07	5.500	ASA	109.668	4.15	+0.01	-0.14	+4
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# JGB yields reach 17-month high

By Arkady Ostrovsky in London

and John Labate in New York Japanese government bond yields jumped to their high- not so much a case of benign est in 17 months after comments by Japan's finance minister, described as "laid back" by the markets, trig-

gered new concern about the

over-supply of JGBs. The yield on the benchmark No 203 10-year JGB broke through 2 per cent on Monday and reached 2.31 per cent yesterday. The sell-off that pushed yields higher was prompted by comments attractiveness of repatriating from Kiichi Miyazawa, Japan's finance minister.

long-term interest rates have already started to show

should be determined by the a slowing of foreign bond market, a comment that the markets interpreted as "indifferent".

"Mr Miyazawa's apparent indifference to JGB yields is neglect as kicking a market imbalances when it's down," said Ian and the US. Douglas at Warburg. The surge in Japanese

yields also affected the US Treasury market on fears that Japanese investors might repatriate funds into the domestic market. "As JGB yields rise, and

spreads to international mar- for long-term interest rates, kets narrow, the relative assets for ven-based investors increases," said Mr Miyazawa said Douglas. "Official figures

buying," he added.

He said the US Treasury market - despite its higher yields - could suffer most from such repatriation because of the bilateral trade imbalances between Japan

US Treasuries pulled back for a second day as the dol-lar weakened against the yen and the two-day Federal Open Market Committee meeting got under way. By early afternoon the 30-year bond, the benchmark

was down % to 100%, yielding 5.241 per cent. The sell-off came a day after bonds lost more than a percentage point after the

New international bond issues

1.748bn 58.09

National Association of Purchasing Management

Shorter-term issues were lower as well. The 10-year note fell 1 to 99%, yielding 4.794 per cent, and the two-year note was down 🛦 to 99<u>31</u>, yielding 4.683 per cent. A release of the index of leading indicators showed a rise for the third consecutive

month, of 0.3 per cent.

Mark Cliffe at ING Barings said a sell-off in US Treasuries could benefit eurozone markets. "Europe is well-placed, because it has been attracting more funds since the launch of the euro. And now the expectation is that Japanese investors who

98.817R Feb 2029 0.875R 99.882R Feb 2009 0.325R 100.00R Feb 2002 0.255R 100.024 Feb 2002 0.175 98.388 Aug 2000 0.975 96.9975 Jan 2002 0.1875

100.00R Feb 2002 0,225R 100.00R Feb 2002 0,225R

Oct 2009 0.325R Feb 2004 0.15R Feb 2009 0.375R Feb 2019 0.50R

turing activity by the which is becoming more liquid, over the US." European markets were

in euro

products

A transatlantic battle is

being waged among leading

currency derivatives exchanges to grab an early

lead in trading currency

futures and options con-

The Chicago Mercantile

Exchange, the third largest

futures market and histori-

cally the main exchange for trading currency futures, is

being challenged by Finex.

the Dublin-based financial futures arm of the New York

Cotton Exchange. Finex had taken an early

lead in the market for euro-

based contracts by claiming

the lion's share of investors

open positions. Daily turn-

over in five euro-based contracts on the exchange - for

US dollars, yen, sterling,

Swedish kronor and Swiss

francs - was about 30 per

cent higher in early January

However, the Chicago

exchange is fighting back

and now claims a 30 per cent

lead in euro-dollar contracts

after a surge in open interest

last week. Total open inter-

est on CME-listed euro-based

futures stood at about 22,400

Open interest in Finez-

traded sure futures has now

reached nearly 23,000. It had

been some 2,500 contracts

greater than that of its Chiago rival immediately after

The CMR started trading

in euro contracts at the start

of 1999, three months later

than Finex. It said euro turn-

then its D-Mark contracts. It

took only only six working

days to reach 5,000 contracts, while D-Mark contracts took

over had risen more quickly

the euro's launch.

three times as long.

at the end of last week.

than that on the CME.

tracts based on the euro.

By John Marray Brown

Nikki Tait in Chicago

in Duttilin and

mixed. German bunds, the most liquid benchmark issues in Europe, edged slightly higher, outperforming other European markets, which closed broadly lower. Germany's March bund future climbed 0.16 to 117.19.

UK gilts closed slightly lower, weakened by the self-off in US Tressuries. The 10-year gilt future fell 0.17 points to 119.89.

Emerging · debt prices tumped almost 2 percentage points underpinned by a surge in Brazil's currency. Brazil's benchmark "C" bond was trading in a range release of a stronger than are underweight in Europe of 57.625 to 58.125.

#### Battle **NEWS DIGEST** for lead DERIVATIVES

#### Simex to launch Euroven Libor futures contract

The Singapore international Monetary Exchange (Simex) announced yesterday it will launch a three-month Euroyen Libor futures contract on February 22. The contract will besettled using the London inter-bank offered rate (Libor) computed by the British Bankers' Association. The contract specifications are similar to those of the existing Simex Euroyen future except that the existing contract is settled using the Tokyo inter-bank offered rate (Tibor) computed by the Japanese Bankers Association.

Sirnex said the launch of another Euroyen contract is in response to requests by members and their customers that arose from the divergence in the underlying Inter-bank market for Japanese interest rates, where the spread between Libor and Tibor benchmarks have widened signif-

The new contract will permit those who need to hedge their Libor-benchmarked exposure to do so efficiently in an open and regulated marketplace. The futures will be sized at Y100m per contract, with contract months listed In the March quarterly cycle for three years. The first contract month to be listed will be June 1999. Sheila McNulty, Kuala Lumpur

#### SECURITIES SETTLEMENT

#### Euroclear turnover up 18%

Euroclear, the Brussels-based system for settling and clearing cross-border trades in stocks, bonds and shares increased the turnover of settlements by 18 per cent last year to \$44,920bn. This pushed Euroclear's share of the market up to 73.4 per cent, making it a leading single "hub" for the euro-zone.

"The launch of the euro means that international counterparties are increasingly looking for a single access point for cross-border euro-zone transactions." Denis Peters of Euroclear said. The rate of volume growth almost doubled last year, compared with a 10 per cent increase in turnover in 1997.

The value of securities that Euroclear holds in its custody reached a record \$2,616bn, an increase of 15 per cent. The average value of daily settlement instructions in the Euroclear system was \$170bn. "Euroclear depot growth in 1998 was the result of further market penetration, primarily in domestic securities, despite disinvestment made by major Euroclear participants located in Asia," the company said.

Mr Peters said domestic debt and equity accounted for 65 per cent of Euroclear's turnover. He said 64 per cent of these transactions were denominated in the euro-zone currencies. Euroclear in particular had settled more deals involving German domestic debt than any other clearing system. However, it is also planning to extend its services to include US-listed equities held by investors based outside the US. Arkady Ostrovsky

# **HypoVB makes €2.23bn offer of CLOs**

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III AURTRALIAN DOLLANI

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NEW ISSUES By Edward Luce, Copital Markets Editor

HypoVereinsbank, the second largest German bank, has joined the roll-call of European banks to issue col-

lateralised loan obligations

with an €2.23bn offering. The bond, the second public CLO by a German bank great hopes on the rapid after a large issue from Deutsche Bank last year, was based on its Luxembourg balance sheet. Other German banks, including Commerzbank and Dresdner. are thought to have issued privately-placed CLOs.

An official at Goldman from their balance sheets. Sachs, joint lead manager, said HypoVB was expected to issue more asset-backed Luxembourg loan portfolio several times bigger than yesterday's offering.

based on 1,800 loans ranging unravelled slowly," said one. from DM1m to DM25m, is unusual in containing a bul- owned Austrian utility, let maturity, which is much made its debut in suros with

maturities offered on many other CLOs said the official The multi-tranche offering was structured more like a credit card securitisation given that almost all the loans were to high-net worth individuals. There were also

panies in the portfolio, Many bankers have placed growth of Europe's asset backed market this year after the launch of the euro. Most European banks have lower returns on equity than their US counterparts and securitisation allows them to remove unexciting items

However, some officials warned against great expectations for the market in the deals. It is thought to have a near future. "You must remember that many continental banks still have close relationships with their bor-The bond, which was rowers and these can only be

Energie AG, a partly state-"cleaner" than the variable an \$150m offering. It chose

some loans to small and medium-sized German com-

C22.3m, 3ME +100bp; Class D, 633.5m, 3ME +250bp. b) 9-min Liber +12/sbp. d) 3-min Liber flat. d) Pungble with \$100m. Plus 11 days accrued. e) Spreed relates to German govt bonds unless stated. f) 3-min Euribor +10bp. d) issuers option to convert on 22/204 hinto zero-coupon bond redeemable at 100%. g) 134/56 in 7, 7% in yes 2-4, 4% in ye 5, then 8% -12-min Euribor. h) 8-min Liber +10bp. i) Over Interpolated yid. j) Dr20bn inor to Dr40bn. [1] Structured. e) Short 1st coupon. mark, which enabled it to

to price the deal against the points if it had used the Ger- because benchmark yields Franch OAT 10-year bench- man benchmark. The issue tightened by two basis offer the bond at a yield points after launch.

"Investors are looking to single A for just that reapick up spread in euros son," he said.

are so low," said the official. "Fund managers are moving from AA rated offerings to

Paribes Mentil Lynch inti

D.	BOND	PRI	CES

BENCHM	ark e	OVER	MMEN	IT BI	DNDS			
Feb 2	Red Delo	Compan	Bha Price	Bid Yield	Day ong Yield	Wit chig yesti	Month day yid	Year chg yid
Angimila	01/01	8.780	107.3706	471 E11	+0.02	+0.01 +0.18	+0.07	-0.E2 -0.80
Amtria	07/00 01/08	5.875 3.000	103,9400	3.03	+0.01	+0.05	-0.23 -0.15	-1.08 -1.28
Belgione	01/00	4.000 6.780	700,9600 113,8800	2.95	+0.02	+0.03	-0.14 -0.14	-1.07 -1.22
Canada	18/00	6.000	100,2800 107,2500	4.83 8.01	+0.03	+0.08	+0.12	-0.21 -0.36
Democrit.	11/00	9.090	109.4100 121.6200	141	+0.02	+0.02	-0.41 -0.20	-0.80 -1,41
Tirland	08/00	4,000	101,3300 118,8050	2.98	+0.04	+0.09	-0.16 -0.10	-0.79 -1.17
France	07/00 10/05	4.000 7.750	101.4200 125.3700	2.98	+0.01	+0.00	-0.22 -0.13	-1.05 -1.33
	10/06 04/29	8.500 6.800	138,0000 113,5890	3,75 4.86	+0.01	+0.67 +0.08	-0.13 -0.11	-1.22 -1.01
Carrenty	06/00 10/05	4.000 6.500	161.3760 117.4200	294 3.52	-0.03	+0.05	-0.15 -0.19	-0.61 -1,32
	07/08 01/28	4.750 5.825	108.0100 115.1200	172 4.66	+0.01	+0.08	-0.15 -0.21	-1.28 -1.02
Erner Inital	03/00 03/08	9,900 8,800	118.8265	10.00 8.18	+0.05	+0.04	-0.15 -0.77	-863 -4.99
	10/01	6.000	108,7200	3.90	+0.02	+0.06	-0.17 -0.12	-1.80 -1.43
italy .	04/01 07/03 05/08	4.500 4.500 5.000	103,0506 104,4700 108,4500	3.40 3.40 3.90	+0.03 +0.10 +0.02	+0.06 +0.14 +0.04	-0.24 -0.04 -0.08	-1.53 -1.60 -1.52
Japan	11/27	6.900	125.9000	4.62 0.75	+0.01	+0.04	-0.07 -0.06	-1.11 -0.08
	12/03 06/06 03/18	4.100 1.800 2.700	111,4880 96.1040 94.9800	1.83 2.26 3.05	+0.19 +0.24 +0.24	+0.29 +0.81 +0.49	+0.11 +0.85 +0.25	+0.19 +0.40 +0.40
Notherlands	05/00 07/08	9.000 8.250	107.4200	2.91 3.80	-0.02	+0.02	-0.27 -0.15	-1.05 -1.23
Nyu Zaphari	02/01	8.000 7.000	105.7204 111.5410	4.90	+0.04	-0.06	-0.21 +0.08	-2.36 -1.22
Harwiy	05/01 01/07	7.000 6.750	104.6500 113.1500	4.80	+0.07	-0.45 -0.14	-0.96 -0.62	+0.55
Pertugal	83706 06/08	5.375 6.375	102.5500 111.2300	3.92	+0.06	+0 08 +0 05	-0.13 -0.14	-1.38 *-1.42
منعوا	0470 80\10	6.750 6.000	104 3400 115.8300	2.94 3.85	+0.01	+0.05 +0.06	-0.14 -0.10	-1,38 -1,43
Sweeten .	05/00 05/08	10.250 9.500	108.2987 118.8650	3.28 4 01	+0.01 +0.05	+0.04 +0.08	-0.25 -0.14	~1.46 ~1.59
Seitzerland	96/00 91/98	4.500 4.250	164,0600 15,8000	1.41 2.27	+0.63 +0.01	+0.08	-0.09 -0.09	-0.29 -0.65
UK.	11/01 12/03 10/08	7 000 6.500 9 000	105.1400 109 8900 137 8800	4.50 4.22 4.20	+0.03 +0.03	+0.01 -0.01 +0.01	-0.10 -0.17 -0.16	~1.99 ~1.96 ~1.88
<b>105</b>	12/28	6.000	99.5587	4.23	+0.03	+0.04	-0.03	-1.83
	06/03 05/08	5.250 5.625	102.0101 105.4141	4.75	+0.06	40.10 11.0+	+0.11	-0.81 -0.67
	98/26	5.500	102.5132	5.33	+0.05	<b>40.12</b>	+0.15	-0.57

	2943	Spread vs	Spread			Bid	Spread vs	Spread
Feb 2	Yield	Euros	T-Bonds			Yield	Euros	T-Bonds
Australia	5.12	+1.42	+0.32	Metherla	nds	3.63	+0.13	-0.97
Austria	4.00	+0.30	-0.80	New Zo	afend	5.54	+1.84	+0.74
Belgium	4.00	+0.30	-0.80	Hurway		4.77	+1.07	-0.00
Carrecta	5.60	+1.32	+0.22	Portuga		1.07	+0.27	-0.83
Denmark	4.05	40.75	-0.75	Spain		3.99	+0.29	-0.61
Roland	3.92	+0.22	-0.88	Sweden		4.04	+0.34	-0.76
France	3.77	+0.07	-1.03	Switzer		2.3	-1.32	-2.42
Germany	3.70		-1 10	UK		4.11	+0 48	-0.62
Greece	6.10	+2.40	+1.30	us		4.80	+1.10	
tratand	3.93	10.23	-0.87		remake Or			
Enly	3.91	+0.21	-0.89		tern ! No			
Japan	2.29	-1,41	-2.51		d yield beat		-	
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-0.99 -0.33 -0.08 7.750 988+ 8.750 88+ 7.750 888-102,4424 94,3037 101,002 +0.06 -0.06 -0.05 7.30 9.41 7.57 -0.37 -0.07 -0.17 70.7508 57.0000 76.5000 64.5000 8.98 14.58 8.71 11.15 -0.12 -0.22 +0.03 +0.13

BOND FUTURES AND OPTIONS Tanica

spread of 50 basis points,

compared with 59 basis

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E 1,049 1	MEDIX 81000 P	OND OPTION	B. (MATP)					
e (b.	-		<u>s ——</u>	-		PRITS -		
Price	Feb	MA		-	Feb	Mer	-	
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111	1.76			•	0.18	-		
42	0.97			-	6.34	•	-	
13	6,41			•	9.76	-	-	
St. 164. 1646	, can sama y	is 2,372 . Page		10 (C.) (Calls (	JEP Per 11,	320		
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E MOTTON	AL COMMAN	بنازلة لمزيد	ES PTS 0	M250,000 T	100ths of 100	P%		
	Down	Sett price	Chence	High	Low	Est. vol.	Open int	
-	118.73	117.19	+0.16	117.21	116.60	398,305	383,514	
	110.70		TELIO	111:464	11000	444,414	- الارمادا	
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	Denn.	Sett trica		High	1.0w	St. va		
iler	109.31	109.48	+0.07	109.60		157.234	194,091	
	100-91	luming	+0.07	100.00	Idente	137,229	184,081	
HUTTON		PUTURES (		4.0% DM25	0,000 points	of 100%		
-	Open	Sett price	Change	High	Low	Est. voi	Open in	
Mar.		102.27	-0.05		-	9	1040	
HOTSON		PATURES 6	LIFFER TON	4.5% DMS	50.000 point	s of 100%		
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We want your business.

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and Interest Indica	<b>96</b>														

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#### **CURRENCIES & MONEY**

# Yen recovers with rising bond yields

MARKETS REPORT By Florian Gimbel

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MERS DIGINI

Defying the wide-spread gloom about Japan's econ-

omy, the yen rallied against the dollar and the euro yesterday, largely because of a sharp rise in Japanese bond

Amid fears of a flood of new debt, Japanese government bond (JGB) yields climbed to their highest level since July 1997, with the yield on the benchmark 10-year JGB reaching a high of 2.31 per cent, up from Monday's 2.035 per cent.

Rising two per cent from overnight lows, the yen strengthened from Y115.1 to the euro respectively.

Brazil's battered Real also staged a comeback yesterday, following the surprising announcement that economist Arminio Fraga was to replace the current central

bank president, Francisco bond market.

But the key determinant to the fate of the Real remains this week's negotiations with the International Monetary Fund. A team headed by Stanley Fisher is in Brazil trying to hammmer out a working solution for the country's ailing econ-

Two statements by Japanese officials exacerbated the bearishness in the Japanese government bond market, thus supporting the rise in the yen.

omy.

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Finance Minister Klichi Miyazawa said long-term interest rates should be decided by the markets, which Tokyo traders took to Y112.6 versus the dollar and mean the government was from 130.1 to Y127.8 against indifferent to events in the

> 1.8415 1.6403 1.6364 1.6372 1.6360

> > 19,5369 58,4463 10,7755 8,6145 9,5138 2,8335 461,832 1,153 2805,36 3,1928 12,4084 290,458 241,068 12,8780

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10.7251 8.5559 8.4503 1.1776 480.816 1.1365 2.1740 12.1017 280.828 23.2707 12.0032 2.2947

The yen also received support from comments made by Japan's top financial diplomat, Eisuke Sakakibara, at a symposium sponsored by the Institute for International Monetary Affairs.

He expressed worries about the global economy and rising trade frictions, and suggested that Japan's banking crisis would be over in a couple of weeks if regulators and bankers decided to prop up top-tier banks through a massive infusion of public funds.

Sterling also moved higher, in the face of persistently sluggish euro-zone economies. In its steady ascent against the euro, sterling has already gained more than five per cent since the launch of the single currency. It finished at £0.69 in London, from £0.689 previ-

The Reuters euro-zone Purchasing Managers Index, published yesterday, con-

483.534 1.1159 2743.56 87.1587 3.1225 12.5402 34.767 12.6152

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firmed the relatively bleak economic outlook in Europe. The index was at 47.8 in January from 47.0 in December indicating continued contraction in the manufactur-

■ Analysts remained divided over the significance of the most widely cited reasons behind today's rise in the ket apparently sees a recov- London. ery [of the Japanese econ-

Boston in London. But others disagreed. "The rise in bond yields does not reflect a sea-change in fun-

would have seen substantial moves against the euro as since January 22 In this case, we would

have seen a sell-off at the OTHER CURRENCIES

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"The increase in JGB front end of the Japanese yields reflects a change in yield curve, which did not fundamental expectations, happen," said Kit Juckes, rather than just fears of a head of bonds and currenflood of new debt. The mar- cies at NatWest Markets in

omy] that is not yet ECrisis-torn Brazil stunned evidenced in the actual currency markets yesterday data," said Peter von May- when it announced a new dell, senior currency strate- president of its central bank gist at Credit Suisse First for the second time in three weeks, appointing a former aide to billionaire speculator

George Soros to the top job. The Real rose 9 per cent damentals. Otherwise, we during the day to R\$1.75 versus the dollar, its strongest

But all eyes remain on the International Monetary Fund and the possible outcal reform package.

"This is a very crucial week for Brazil," said Mr Juckes. He added that currency

markets would wait and see how effective the central bank's new governor would be in setting policy.

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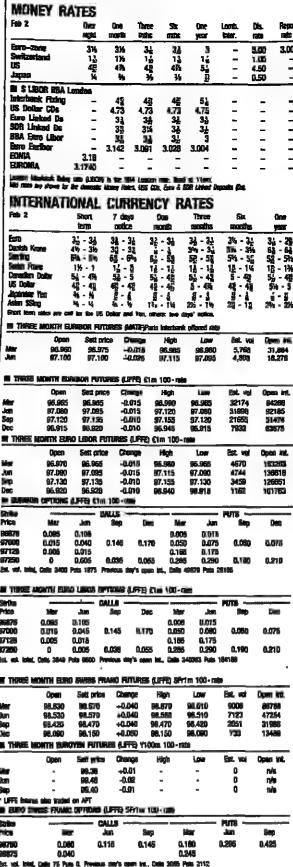
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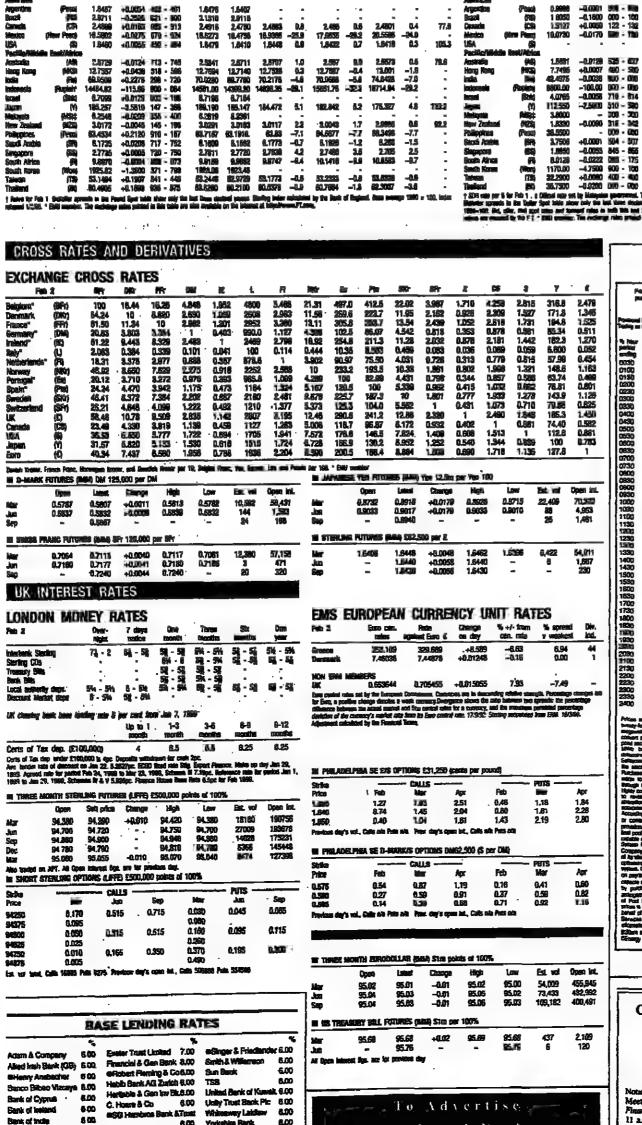
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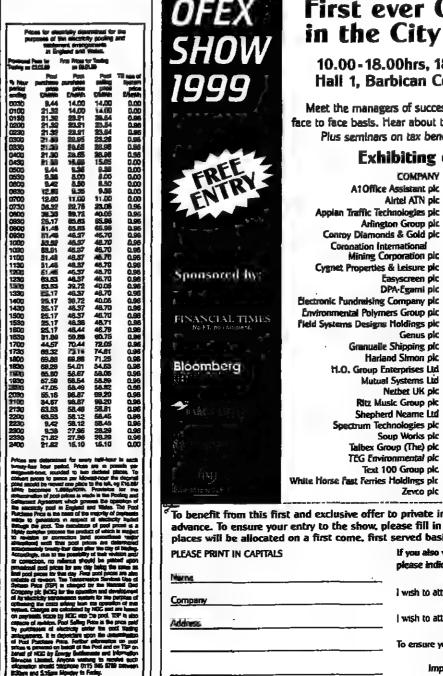
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Notice to the holders of the outstanding U.S.\$50,000,000 3% per cent. Bonds due 2000

CHUGAI PHARMACEUTICAL CO., LTD.

Notice is hereby given to the holders of the above Bonds that, at the adjourned Meeting of such holders convened by the Notice of Meeting published in the Pleasteid Times and the Lazamburger Wort on 7th January, 1999 and held at 11 a.m. (London time) on 22nd lanuary, 1999, the Extraordinary Resolution set out in such Notice was duly passed.

Set out in such Notice was duly passed.

Accordingly the modifications to the Terms and Conditions of such Bonds and the Times Deed constituting them referred to in such Notice will be made with effect from 1st February, 1999 by means of a Supplemental Trust Deed, From 1st February, 1999 Asalu Bank (Netherland) N.V. will no longer be Trustee and Chandrian of the Bonds and The Bank of Tokyo-Mitsubishi Trust Company will be appounded as Trustee and Custodian of the Bonds. The Bank of Tokyo-Mitsubishi Trust Company can be contacted at 1251 Avenue of the Americas, New York, NY 10020-1104 (Fax: 1-212 782 5901).

3rd February, 1999

Your Legal Notices.

Please contact

Melanie Miles on

Tela 344 0171 873 3349

Fax: +44 0171 873 3064

Chugai Pharmaceutical Co., Ltd.

#### SHOWA HIGHPOLYMER CO., LTD.

Notice to the bolders of the outstanding ¥3,000,000,000 0.7 per cent. Convertible Bonds due 2006

SHOWA HIGHPOLYMER CO., LTD.

Notice is hereby given to the holders of the above Bonds that. At the adjourned Meeting of such holders convened by the Notice of Meeting published in the Financial Times and the Laxemburger Wort on 7th January, 1999 and held at 11.30 a.m. (London time) on 22nd January, 1999, the Extraordinary Resolution set out in such Notice was duly passed.

Accordingly the modifications to the Terms and Conditions of such Bonds and the Tims Deed constituting them referred to in such Notice will be made with effect from 1st February, 1999 by means of a Supplemental Trust Deed. From 1st February, 1999 Asalu Bank (Netherland) N.V will no longer be Trustee and Custodian of the Bonds and The Bank of New York, London Branch, will be appointed as Trustee and Custodian of the Bonds. The Bank of New York. London Branch, can be contained at 46 Berkeley Street, London W1X 6AA (Fax. 44-17) 322 6399).

Shown Highpolymer Co., Ltd. 3rd February, 1999

# Crisis leaves shipowners in financial doldrums

The Asian recession has left freight rates at 12-year lows and many owners cannot cover their costs, says Paul Solman

hipowners in the dry that carries such goods as Continuing to feel the and fertiliser – was worth effects of the Asian crisis, \$20m. By the end of 1998, it which has savaged the world commodities trade that is the backbone of their industry. As freight rates remain around their lowest for 12 years, many owners cannot

even cover their costs. The fall in freight rates demand for commodities dipped. The Baltic Freight index, a hasket of rates on the world's leading routes. went into steep decline, hitting 776 points at the end of last year, its lowest since 1986. Two years earlier, it

"The main engine for the dry bulk cargo market is the Far East, where countries such as Japan and South Korea import large volumes of commodities and raw materials for industrial production," says Ole Storer, analyst at Morgan Stanley.

At the same time, the supnly of new vessels continued unabated, helped by a weaker yen that brought down shipbuilding prices in the big yards in Japan.

As owners found themselves chasing fewer cargoes and smaller fees, the value of their ships began to drop. Panamax vessel - the main year and \$25.51 at the same

class of dry bulk cargo ship time in 1997.

bulk cargo market are grain, iron ore, coal, bauxite had fallen to \$14m. A new Panamax was worth \$30m at the end of 1995; three years later it had slipped to \$23m.

"Shipowners were hit by a double whammy," says Alan McCarthy, senior vice-president of specialist shipping began in 1997, when Asia's finance company Tufton Oceanic. "Too many ships were coming out of the yards. Then the Asian crisis hit and demand fell away." Traditional shipowners

who relied on rising ship prices as a cash generator have been unable to make money in the current market, according to John Banaszkiewicz, director of SSY Futures, part of the SSY ship-broking group.

"Many owners also failed to take cover from the changes in the market by hedging their positions with long-term physical contracts and freight derivatives," Mr Banaszkiewicz says.

Dry bulk cargo shipowners remain in a precarious position. Average freight rates from the US Gulf of Mexico to Japan, one of the benchmark Panamax grain routes, were \$13.65 a tonne at the end of last week compared In 1995, a five-year-old with \$20.23 in January last

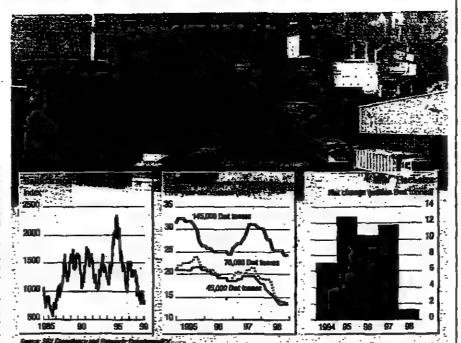
Industry sources say many owners are not even breaking even. Some estimates suggest a typical shipowner's earnings are falling below interest payment requirements by as much as \$6,000 à day.

"Many owners are only marginally better off than they would be if they laid up their ships," says Mr Storer of Morgan Stanley.

Those who ordered new ships before the Asian crisis are facing huge debts for vessels that cannot find customers. For some, financial deep water has led to vessels being seized on the instructions of their banks.

ome blame the expan-Sion of shipping finance in the past two years, especially through junk bond issues. In 1998, shipping companies overtook airlines as the largest issuers of bonds in the transport sector, according to a recent survey by Standard & Poor's. the credit rating agency. Of Parker, global shipping the 34 ocean shipping comindustry head at Citibank, the 34 ocean shipping com-panies rated by S&P last year, only five were given

investment grade. "In the 12 months to June last year, a great deal of money was raised for shipowners through junk bond issues, despite the fact that the Asian crisis had already



"It was obvious we were heading for recession, yet tremendous gearing was achieved in an industry that has always been volatile at the operating level."

Not surprisingly, perhaps, benks are more sanguine. There's no doubt about the fact that some shipowners have hit a wall in terms of their ability to pay off their debts," says Michael

and many lenders have pulled back for that reason. "But the damage from the expansion in bond financing is a fallacy. About \$6hn went into high-yield bonds last year compared with \$2hn in 1997. But that was a small proportion of the \$100bm of

nation is not yet as serious as the previous dry bulk cargo crisis of the mid-1980s. This point is echoed by the director of shipping at another leading bank. 'The shipping industry is cyclical. Many owners have had good years to build up their cash

reserves," says the director.

"Same will even see the cri-

Mr Parker believes the sit-

sis as an opportunity to acquire tonnage at reasonable rates," he adds. Many in the shipping industry agree that an upturn could be some way off. Freight rates have recovered a little ground in recent weeks, and the BFI settled yesterday at 803 points, still

substantially lower than the

average of 1,314 in 1996 and

the new buildings end of the industry has begun to react to the downturn. A net 1.3m. tonnes capacity was added to the dry bulk cargo fleet last year, against 11.8m in 1997 and 10.6m in 1996.

"All is not doom and gloom," says Mr Banaszklewicz of SSY Futures. The prospects for 1999 are still bleak but we could see a recovery in 2000. It depends on an increase in world trade and the scrapping of older vessels so that we can bring down the size of the

Other analysts also predic better times next year. But as Citibank's Mr Parker says: "Forecasting in the

#### **NEWS DIGEST**

INDABA MINING CONFERENCE

#### Tanzania tipped as the rising star of Africa

If Ghana is today's Chile, is Tanzania tomorrow's Ghana? Most of the speakers at this year's investing in African Mining conference, Indaba 1999, are convinced it is. Chile has been the Latin American mining success story of the decade. Consultant David Williamson said it has set the pattern for African countries wanting to exploit their mineral wealth, through the easing of mining restrictions and a positive political background".

However, he argued, most African countries are missing their opportunities. The Democratic Republic of Congo, Sierra Leone and Angola are mineral-rich, but political turmoil, war and corruption have left them on the fringes of mineral exploitation. By contrast, Ghana has shown investment can produce good returns. West African countries such as Mali and Ivory Coast have followed Ghana's lead,

as have Namibia, Botswana and Tanzania. Tanzania is Mr Williamson's tip as the rising star. It is only 13th in the African production league table, but he sees it shooting up the rankings in the next few years. Last year, it attracted more capital expenditure than any other African country. Its first gold mine, Golden Pride, which cost \$48m to develop and is already in production, will be officially opened this weekend. It should produce about 180,000 ounces a year initially but will soon be dwarfed by Bulyanhulu, Tanzania's largest gold deposit and its only underground project, which is scheduled to produce more than 300,000 ounces a year by 2000.

At least three other new mines are expected to come into production in Tenzania within the next couple of years. Michael Kenyon, president of Sutton Resources, which is developing Bulyanhulu, estimated yesterday that, when all the new projects are on stream, Tenzania should be producing 1m ounces of gold a year.

#### Anglo American to expand

Anglo American, the South African mining group, Intends to expand aggressively once it has finished its restructur-ing and has its London stock market listing this spring. Robert Danchin, chairman of the new mining business division, said he was looking for quality joint ventures, strategic alliances and acquisition opportunities.

The planned acquisition of the remainder of Minorco. Anglo's sister company, will give the group a global rather than purely African presence, and the UK listing should give it access to cheaper capital and widen the shareholder base. Dr Danchin said Anglo had budgeted \$75m : for exploration in Africa this year, even though the continent's recent economic growth had been disappointing.

#### Finance houses under fire

South Africa's mining finance houses have been a "terrible" investment" for US dollar investors, said Des Klialea, mining analyst at Fieming Warburg. The houses were notorious for using good projects to fund bad projects, said Mr. Kilales. He cited Anglo as an example, but said inadequate "hurdle rates" (target returns) had been common in the sector. Companies need to stop cross-subsidisation and use cash flows properly. This means focus, transparency, and a concentration on risk-adjusted return, he added. Gillian O'Connor, Mining Editor, Cape Town

# Soft commodity futures volumes up 41% on Liffe

MARKETS REPORT

BASE METALS

By Paul Solmen

Soft commodities futures volumes on the London International Financial Futures and Options Exchange were 41 per cent higher in January this year

COMMODITIES PRICES

compared with the same month last year. cent, while white sugar was up 34 per cent and wheat rose 50 per cent, the exchange said yesterday. Cocoa and potatoes rose 28

per cent and 26 per cent

respectively.

Oil prices fell sheed of the latest US crude and refined product inventories data. March delivery Brent Blend was \$10.77 a barrel in late trading on London's International Petroleum Exchange, down 11 cents on Monday's close, but prices were flat for

A recent cut in refinery result in a build-up of crude oil stocks.

The markets shrugged off 27.81m b/d. suggestions that there may be an early attempt by key members of the Organisation Countries to boost prices.

SOFTS

Earlier a Reuters survey runs in the US is expected to had reported that Opec output in January rose by 360,000 barrels a day to

> On the London Metal Exchange, three-month aluminium failed to react to minum, the fourth largest up £17 at \$1,444 an ounce.

restart 50,000 tonnes of smelter capacity that had been put out of action by a strike. It closed at \$1,215 tonne, up \$8 on the day. Nickel was also strong

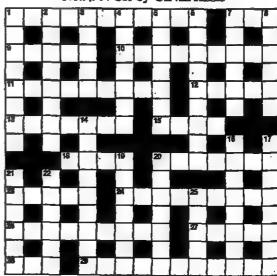
US producer, planned to

jumping \$80 to end at \$4,345 of Petroleum Exporting reports that Kaiser Alu- a tonne, while copper closed

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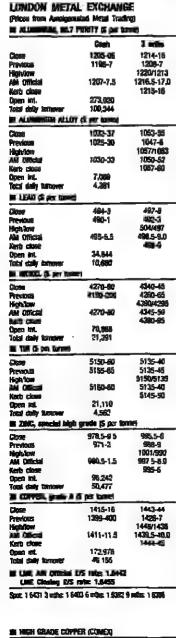
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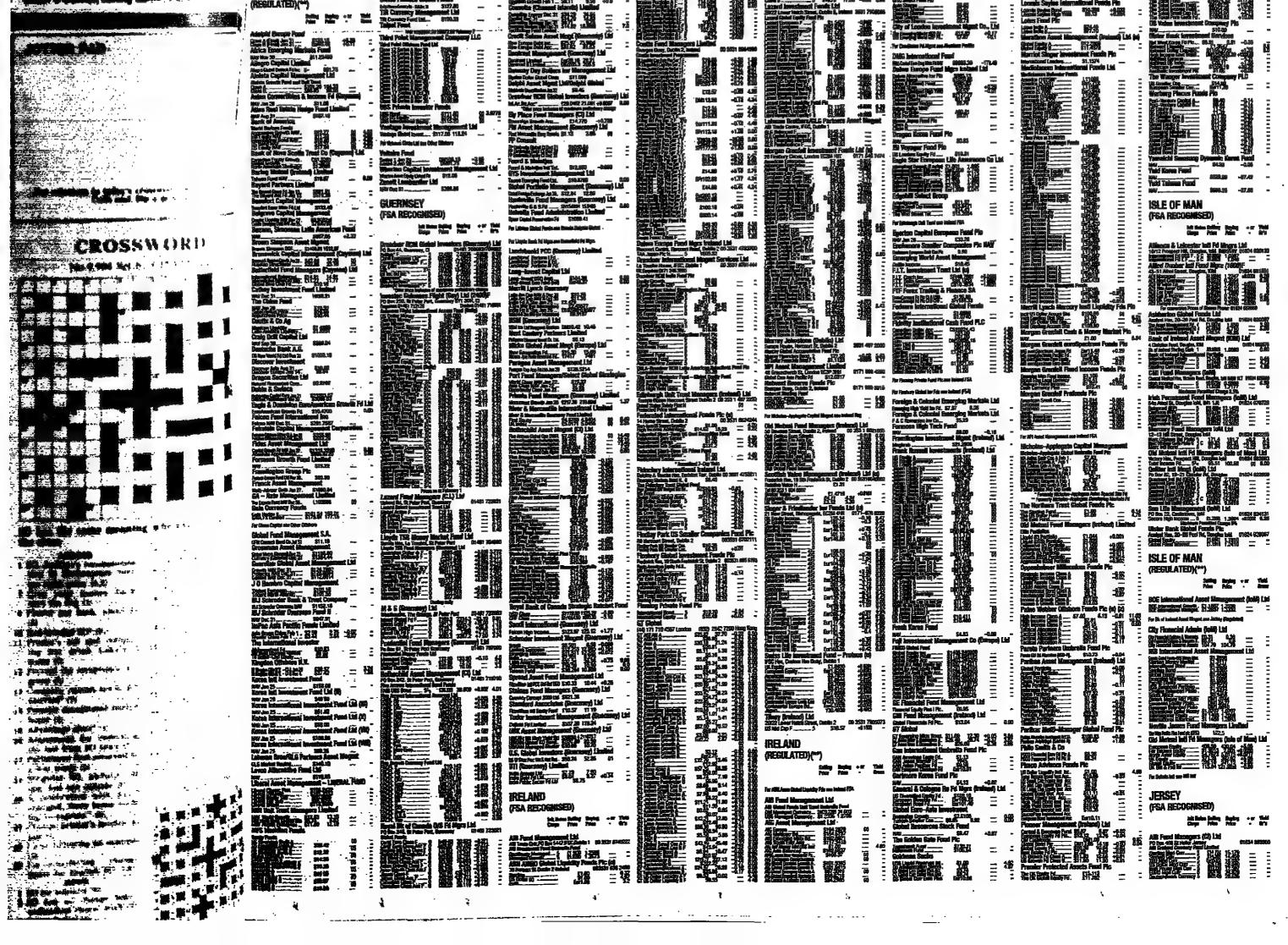
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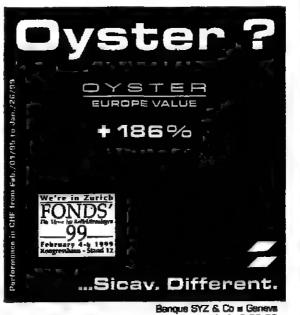
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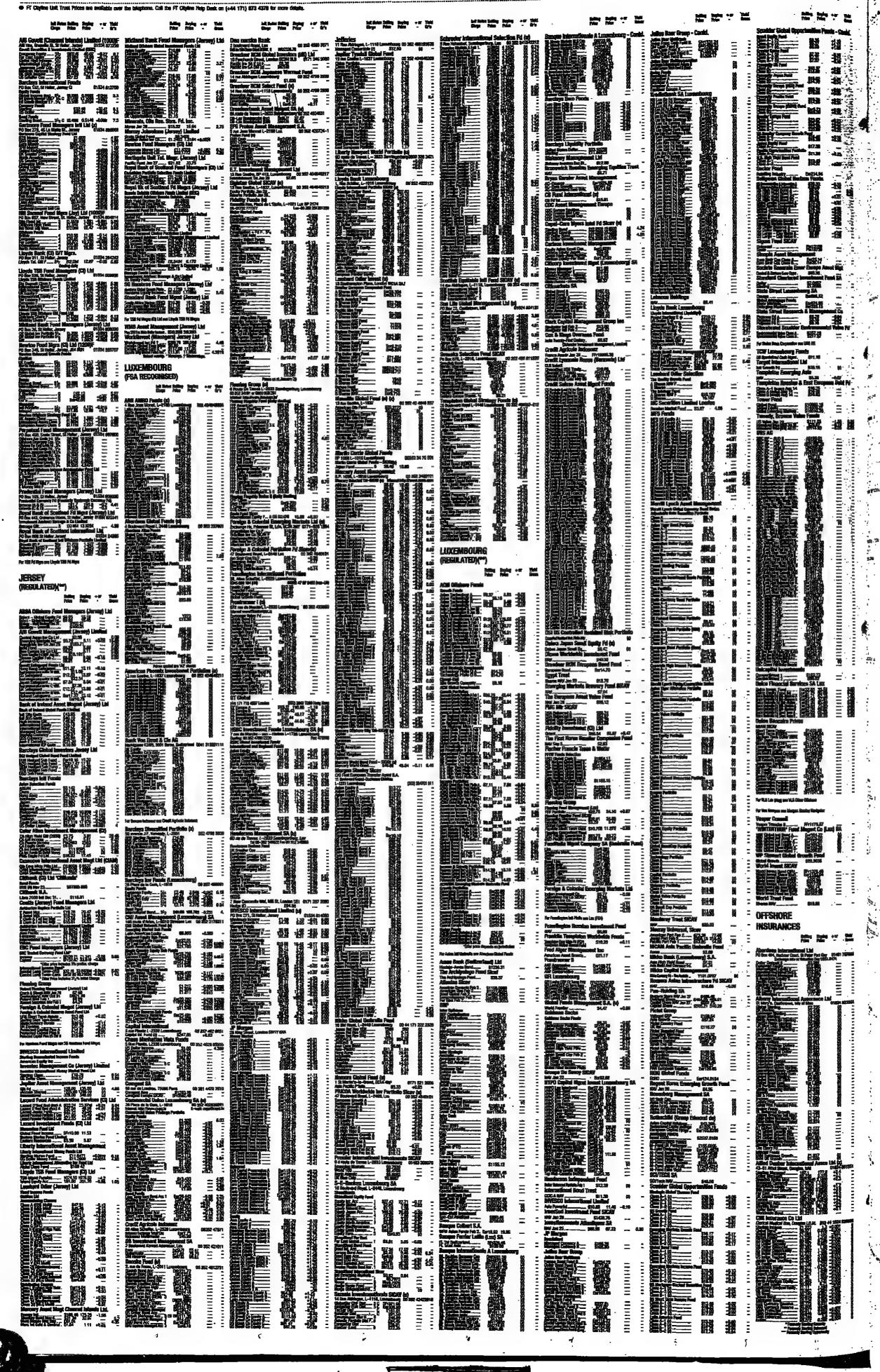
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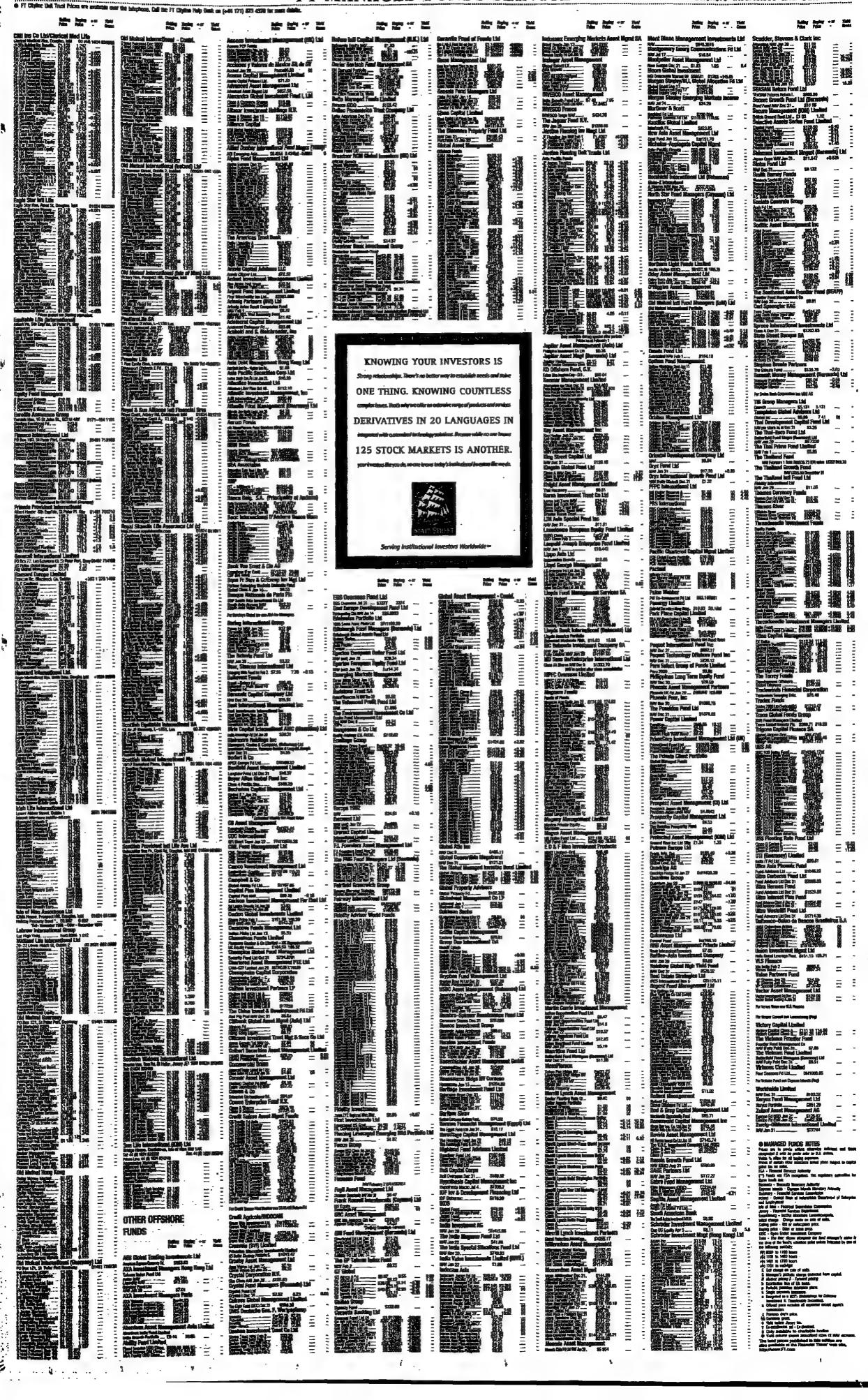


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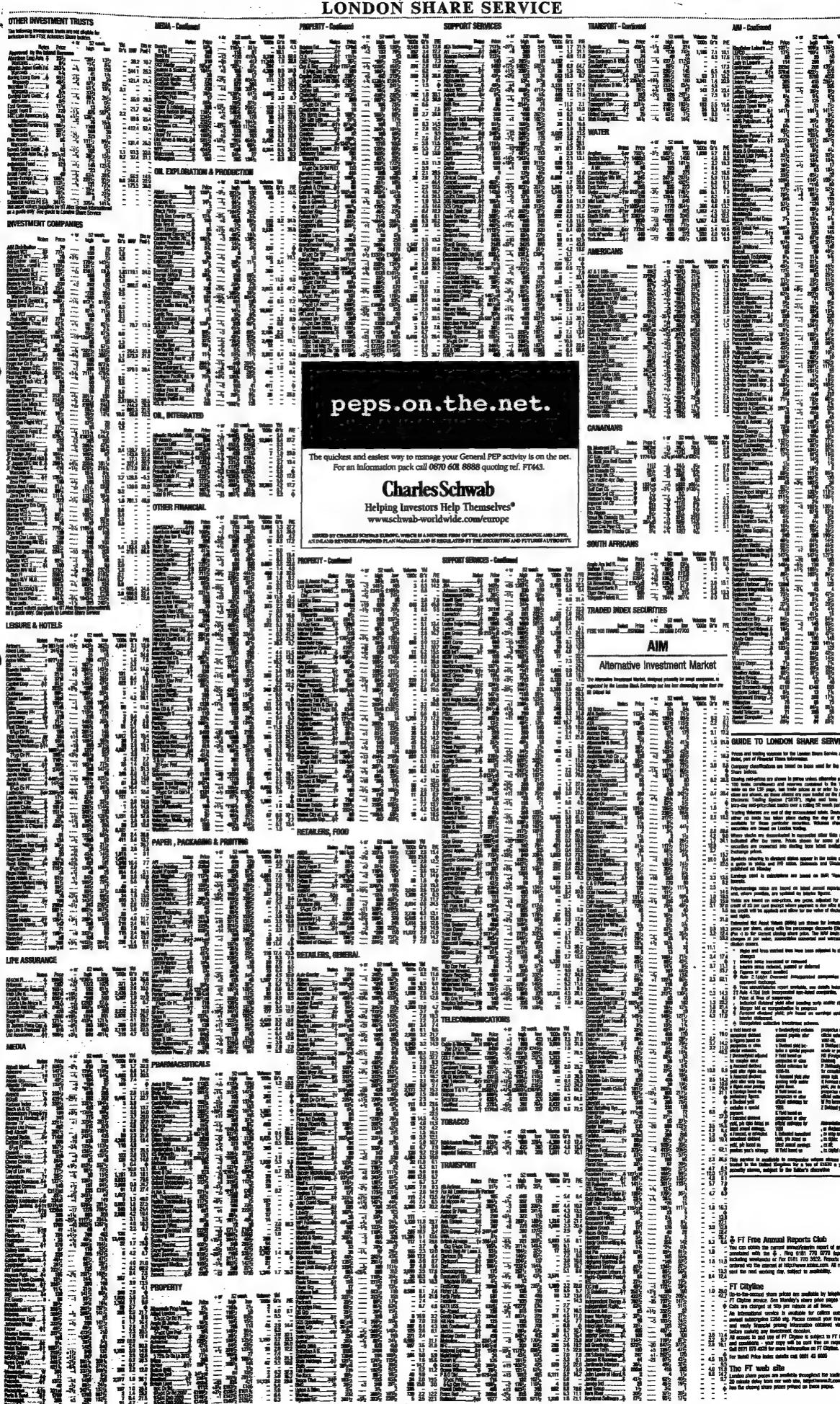
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#### LONDON STOCK EXCHANGE

# Bank takeover rumours trigger Footsie rally

MARKET REPORT By Steve Thomoson **UK Stock Market Editor** 

leading stocks mostly had a rare off day, suffering from flurries of profit-taking mostly induced by Wall Street, there was no stopping the medium-sized and amailer stocks.

A mixture of announced and rumoured takeover bids, this time in the highly plus a continuation of the "soft landing" economic argument, was behind the fresh surge in the FTSE 250 and FTSE SmallCap indices, settled 0.6 up at 6.013.0.

both of which substantially outpaced the FTSE 100 in terms of total returns during The FTSE 250 made rapid

progress for a seventh session, finishing 93.5 up at 5,215.3, while the SmallCap pushed ahead strongly for a sixth consecutive trading day, closing 15.2 firmer at

As the market picked up the scent of more bid action, charged banking arena, the FTSE 100 ended a fraction up on the day and a long way above its session low. It

three-figure loss.

But rumours sweeping the market during the last 30 minutes of trading suggested that a bid for Allied Irish Banks was imminent, with iunior indices. Lloyds TSB and Deutsche Bank the favourites to make a move for the Dublin-based

sector, which was badly affected last week by the prospect of an intensification of the mortgage price war, responded with gusto.

below the 5,900 level, as it their attention on second came close to posting a and third-line issues, partly because of a year of underperformance in 1998 and partly because of the heavy weightings of engineering and building stocks in the

Cyclical stocks, engineers in particular, were being chased sharply higher throughout yesterday's ses-The rest of the banking sion as takeover action, so prevalent in the latter sector in recent weeks, continued

250, with the latter led by market committee. Most Weir Group, the latest UK engineering group to face a to leave rates on hold again.

Wall Street gave precious little support to global markets, as the Dow Jones Industrial Average followed up Monday's 13-point decline with another sluggish showing shortly after the New York opening. And the Dow posted a three-figure fall as the US session wore on.

Markets now have to face a series of crucial interest Engineering/cyclical rate decisions, starting with stocks provided the top four the outcome later today of

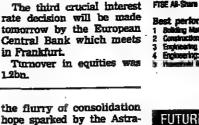
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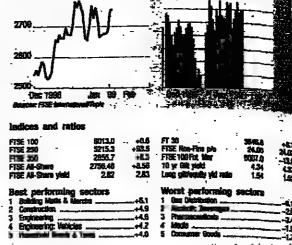
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> The Bank of England's monetary policy committee begins its two-day meeting in London after which another 25 basis points reduction in rates is expected by the majority of market observers.

> The third crucial interest rate decision will be made tomorrow by the European Central Bank which meets in Frankfurt.

Turnover in equities





# **Allied** leaps on bid talk

**COMPANIES REPORT** By Peter John, Martin Brice and Joel Kilman

Speculative energy, which has been blowing through the banking and financial sectors for the past few days, settled on Allied Irish Banks.

Takeover rumours have been heard there before but they hardened yesterday with Deutsche Bank and Lloyds TSB being fingered as candidates prepared to pay £15 a share for the group.

Analysts said Deutsche

Bank was an unlikely contender as its recent acquisitions left its capital ratios looking very stretched, although it could make a paper offer.

John Tyce at SG Securities described a tie-up between AIB and Lloyds as "conceivable but not probable". He pointed out that there was no prospect of merger accounting and £10bn of goodwill would need to be written off.

Others said Lloyds was obviously looking to expand because of the pressures of the growing euro "superleague", but having an expansionary bridgehead in Ireland looked strange. Nevertheless, AIB moved

forward 73 to £12.62%, a new

closing high on turnover of

The chatter about AIB was only the loudest in a sector hissing with talk. Some dealers were saying that Lloyds needed to do a deal and could also look at the Scottish banks or even Standard Chartered again. Royal Bank of Scotland lifted 47% to £11.45 and Bank of Scotland 26½ to 808p. Standard fell

17% to 851%p. Meanwhile, Lloyds lifted 14 to 817%p with 8.9m shares

Schroders, one of the UK's merchant banks, gained 60

turned more positive on the

The bld approach at Weir dam holding back pent-up demand for undervalued engineering stocks as several raced ahead and achieved the best performances in the market. This may mark a turning

point in market opinion. which has shunned engineering stocks for some time on fears of the effect of sterling strength and a slowing

While some brokers have few remaining independent been warning clients recently that it is too soon to to £11.48 as Merrill Lynch buy cyclical stocks, Deut-

> Feb 2 Feb 1 Jan 29 Jan 28 Jan 27 Yr ago "High "Low 3948.8 3838.7 MM1.5 3505.7 3498.4 3114.9 404.9 2790.8 2.87 2.87 2.93 2.891 2.96 3.17 402.9 2.72 2.35 23.35 23.31 22.86 22.720 22.88 22.40 M3.41 18.80 23.25 23.24 22.77 22.628 22.88 MA M3.18 18.71

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sche Bank yesterday advised clients to purchase "highquality, cheap cyclicals" and CSFB's equity strategy team talked of "a genuine turning point in the global economy and a turning point in sector leadership".

The engineering sector has underperformed the market by 35 per cent since June, hut has clawed back almost 10 percentage points of that in the past few days. Weir was the best per-

former in the FTSE 250, rising almost 27 per cent or 621/2 to 294%p, taking it towards its 52-week high of 314½p. Other engineering-related stocks that benefited included BBA, up almost 15 per cent or 58 to 454%p: Meggitt, up 21% to 171p; and Cobham, which gained 77% to 930p helped by positive comments from Dresdner Kleinwort Benson advocating exposure to the Airbus project and defence con-

Deutsche moved from 'neutral" to "outperform" on TI, which rose 40 to 410p.

on undemanding relative valuations."

It highlighted the exposure of UK engineers to the US economy and said: "Resilience in the US, combined with a declining interest rate environment in the UK, tively buying into the sector

However, one trader at another European house warned: "When the March results season gets under way, this sector is a place you won't want to be.'

#### Glaxo disappoints

Glavo Wellcome took a hit as word leaked out of an Aids conference in Chicago that one of its new treatments might disappoint.

The shares fell 57 to £20.63 after Lehman Brothers' analyst at the meeting cut the forecast for peak sales of Glaxo's new protesse inhibitor from \$500m to \$300m.

Although relatively small in comparison with overall group turnover, the reducand FKI, up 16% to 157%p. tion is the second Lehman Deutsche told clients: "UK downgrade this week on one angineers, like many other of five new products expec- broker, said to have relterquality cyclicals, are trading ted to drive forward Glaxo ated its positive stance folgrowth following the expiry lowing Monday's disposal ment patent

On Monday, Lehman pushed back its expectations

Furthermore, the UK pharnaceuticals majors have traditionally traded at a dishope sparked by the Astra-Zeneca deal they have traded at a premium.

BICC rose 17 per cent or 10% to 74p as speculation mounted Wassall was set to mount a 90p-a-share bid. Wassall was unchanged at

214%p. Ladhroke, the betting shops-to-hotels group, was among the winners in the FTSE 100, rising 8% to 228%p as leisure analysts highlighted the stock's attractions in the light of the William Hill flotation. Roy Owens, leisure analyst at Sutherlands, said: "To us Ladbroke looks better value. The William Hill flotation will promote the attractions of Ladbroke. Although hotels are out of favour at present, Ladbroke possesses a quality and valuable opera-

tion in Hilton International." Mr Owens forecasts 20 per cent upside in the share price in the medium term. Reckitt & Colman moved up 50% to 870p after the

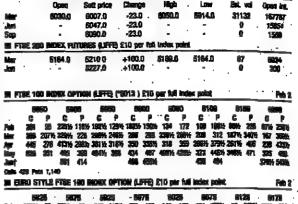
departure of Vernon Sankey, chief executive of the house hold products group.

The company has often

attracted takeover speculation and a period of uncertainty was seen as providing the potential for a predator to strike BSkyB fell 29% to 439%p

on concerns that the company may have to make conssions for its bid for Manchester United to be cleared. Coca-Cola Beverages moved 9% ahead to 102p in trade of 9m, with Warburg Dillon Read, the company's

of its Chilean and Peruvian bottling interests, Inchcape



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PIGE 300 or but D	2661.9		100		2674.4	279	240	1.96	22.86	124	
FTSE 350 Higher Yield	2626.4	+1.3	2970.2	2502 2	2969.7	3.91	3.34	1.86	17.31	1.36	2041.
FTSE 350 Lower Yield FTSE SmallCap	3100.3 2189.77	-0.7 +0.7	3506.1 2453.81	3121.7 2154.58	2683.0 2388.60	1.00	1.46	2.10	34.19 16.00	1.52 3.87	2271. 1919.
FISE SmallCap ex law Tr	2130.00	+0.9	2406.84		2375.42	3.98	3.28	2.23	34,15	3.79	1905.
FTSE All-Share	2756.48 2768.68		3117,33		2597.58 2805.80	2.82 2.84	242	1.06	22.62	17.00	2533.
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TISE Program or lan Tr	1201.86		1358.97	1129,25	1316.42	4,77	3.67	1.42	10.51	1.95	1362.
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10 RESOURCES(18)	3827.55	+12	4328.61	3781.65	4488.39	3,79	3.30	1.17	28,09	0.47	1786.
12 Extractive industrice(s)	2773.93 4455.84	+0.2	3137.07 5039.15	2769.43 4396.76	3205.62 4922.95	4.89	4,51	2.06	12.43	3.75	895.9
16 Of Exploration & Prod(S)	1243.62	+0.5	1406.42	1236.83	3396.57	4.48	3.15 3.91	1.06 0.97	32.25 28.79	0.00	2138.1 778.8
20 GER INDUSTRIALS(191)	1699.58	_	2148.25	1835.33	1928,12	3.84	3.42	2.26	14.44	1.90	1138.
21 Construction(37) 22 Building Maste & Mercha(23)	7312.91 1867.98	+4.9	1484,78	1251.15	1340.85	3.86	3.16	3.06	10.54	0.46	1191
23 Chemicals(20)	1921,72	+6.1 +0.1	1886,34 2173,30	1572.60 1930.54	1643.51 2565.11	4.51 4.74	3.91 4.47	2,11 1,84	13.11	0.38	930.6 999.8
24 Diversified industrials(4)	1051.39	-0.1	1189.03	1051.96	1289.40	5.24	5.50	1.08	18.58	5.26	870.8
25 Bactronic & Bect Equip(25) 26 Engineering(54)	2889.00 2442.81	+0.8 +4.6	3267.20 2782.60	2867.35 2335.20	2185.03 2576.65	2.65 3.95	2.26 3.54	1.99 2.27	23.72	5.23	1619.
27 Engineering, Vehicles(18)	4046.69	+4.2	4576.44	3886.28	3385.84	2.22	2.03	3.23	17.48	0.35	1811J 2254J
28 Paper, Poley & Printing(18)	1688.37	+3.5	1908.39	1831.73	2004,17	6.19	5.75	2.36	8.56	2.42	780.9
30 COMSTMER GOODS(82) 32 Alcoholic Beverages(5)	6073.71 3890.49	-1.7 -2.6	6868.82 4173.82	9180.28 3790.82	5777.25 3298.45	220 325	2.04 3.11	1.95	29.12	0.28	2429.
33 Food Producers(26)	3528.87	-0.3	3990.84	3540.43	3479.22	255	2.20	2.13 2.31	17.53	0.34 0.10	1479.1 1729.1
34 Household Goods & Texts(14) 36 Health Care(14)	2230.56 2479.00	+4.0	2522.58	2144.16	3150.79	4.59	4.15	1.96	13.88	0.80	958.1
37 Pharmaceuticals(20)	10933.83	+0.6		2495.11 11205.09	2492,92 10681,29	2.08 1.59	1.92	2.11 1.62	38.45 48.57	1.36	1601.5 3940.1
38 Tobacco(3)	7706,49	-0.2	8715.35	7721,83	4844.14	4.08	3.72	2.23	13.73	0.00	2195
40 SERVICES(287) 41 Distribujors(26)	3822.65 1927.07	-0.4	4323.08	3539.07	3010.80	2.25	1.86	2.10	25.45	4.80	2129.4
42 Luisure & Hotels(31)	3260.20	+1.5	2179,35 3686,99	1927.42 3213.05	2463.03 3434.89	4.92 2.81	4.09 2.50	2.02 2.87	12.58 15.52	1.12 19.09	774.2 1873.8
43 Media(47)	5030.13	-1.9	5688.63	5127.22	3886,75	2.05	1.75	2.14	28.39	0.13	1922
44 Retailars, Food(13) 45 Retailars, General(42)	2764.10 2124.91	-1.1 +0.5	3125.84 2403.06	2793.82 2115.15	2913.96 2320.33	3.30	2.65 2.83	2.17	17.45 17.03	4,19	1909.2
46 Telecommunications(7)	6228.86	-0.7	7044.28	6272.46	3243.71	1.44	1.18	1,59	54.52	5.33 4.13	1318.0 3072.9
47 Broweries, Pubs & Rost.(23) 48 Support Services(89)	3781.32 5236.53	+1.0	4276.33 5927.04	3782,12 5185,28	3740.10 3970.23	3.33	270	221	18.59	12.60	1969.3
49 Transport(29)	3540.54	-0.9	4004.03	3571_03	2963.43	1.20 2.95	1.02 2.49	2.82	37.08 20.31	0.81 3.89	3471,3 1600,3
80 UTILITES (20)	4139.08	-0.8	4680.92	4172.76	3790.42	3.57	3.28	1.87	19.27	1.38	2014.
62 Sectricity(7) 84 Gas Distribution(2)	4810.77 3287.28	+0.8	5440.55	4774.15	4240.65	4.20	3.42	1.71	17.39	0.00	2873.8
BB Water(11)	3222.00	-8.1 -1.4	3717.61 3643.79	3393.37 3268.86	2958.34 3244.37	2.06 5.20	1.85 4.80	2.38	10.12	0.00 4.52	1915.1 2034.2
69 NON-FINANCIALS(596)	2823.52	-0.1	3193.14	2826.33	2566,49	2.75	2.38	1.90	24.00	2.03	2331,7
70 FMANCIALS(120)	5210.59	+1.7	5892.71	5124.32	5441.88	3.13	2.60	2.18	18.29	0.27	2440.1
71 Busies, Rehalf(12) 73 Insurança(21)	7646.93	+2.1	8647.99	7488.06	3063.21	3.35	2.68	2.14	17,42	0.00	2711.0
74 Life Assumince(8)	2305.23 8089.08	+0.4	2607.00 9148.02	2295.74 8017.78	2428.40 5843.23	2.88 2.38	2.71 2.06	2.05 2.70	21.29 19.45	0.12 0.00	1932.9
77 Other Anancial(31)	3738.49	+0.9	4227.90	3704.69	4109.35	296	245	2.53	16,70	0.87	3646.5 2309.9
79 Property(48)	1751,70	+2.7	1981.01	1705.91	2324.84	3.56	3.04	1.61	21.85	0.97	1168.0
80 MRESTMENT TRUSTS(117) 89 FTSE AR-Share(835)	3719.92	_		3732.80		<u>224</u>	1.85	1.18	48.17	3.28	1369.5
63 FISE AR-Share on her Tr/718	2756.48 2786.58	+0.3 +0.3		2747.52 2757.59	2597.58 2605.80	2.82 2.84	2.42 2.44	1,96 1,97	22,62 22,36	1.56 1.54	2533.3
Sormation Technology	1826.48	_		1815.50		9.52	0.42	4.47	54.33		1306,3 1836,5
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TSE 250 5125.3 TSE 350 2847.0		146.2	5161.5	5178,9	S185,7	. 5	200.2	5208.0	52	5.7	5135.3
13E Sma@Cap 2159.37		823.1 (82.55	2829.9 2165.21	2835.9 2188.30			847.9 68.90	2890.8 2169.75		2.7	2810.8
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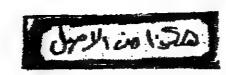
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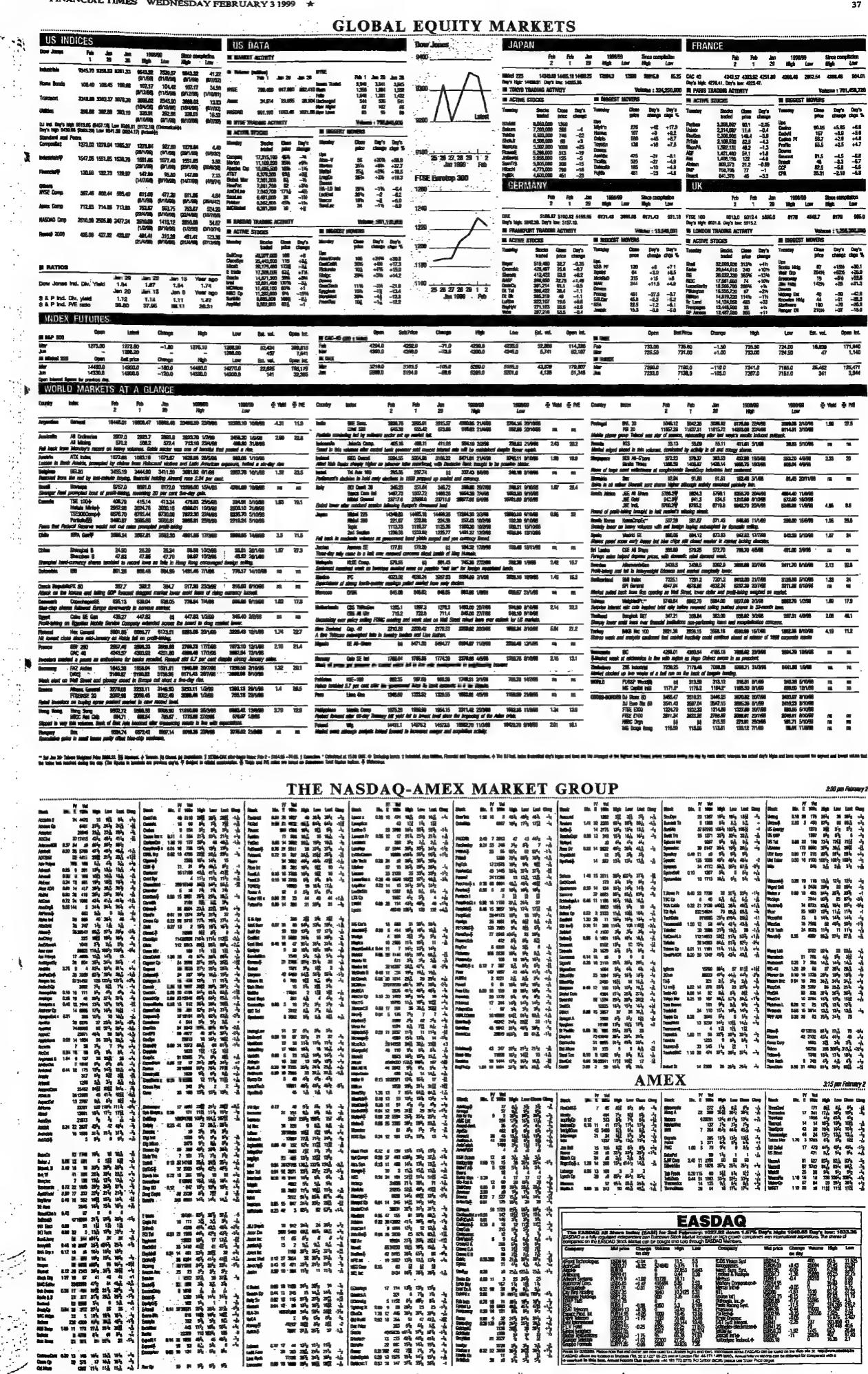
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**EMERGING MARKET FOCUS** 

# STOCKOMARKETS

# Bourses on hold as central bankers meet

WORLD OVERVIEW

Share markets back-pedalled yesterday as the countdown to decisions on interest rate policy began at two of the world's most important central banks, writes Jeffrey

The US Federal Reserve meets today to conclude a two-day session widely expected to lead to no change in US interest rates. Round at the European Cen-

sues are seen by stock markets as less clear cut. The uncertainty helped across European stock mar-

kets from the opening bell. Paris and Frankfurt both retreated almost 1.5 per cent. with French equities reversing a six-day rally of more than 7 per cent. The weak opening on Wall Street, with the Dow Jones Industrial Average off 60 points at the

pronounce tomorrow, the kept sentiment on the soft exchanges, where the euro

narrow - the benchmark spark broad profit-taking CAC 40 index in Paris traded within a range of 50 points or little more than I per cent managers' reports from Ger-and selling was said to be many and Italy indicate, the light. Market feedback suggested that investors had gone "on hold" until the next piece in the international interest rate jigsaw had been slotted into place. Whatever it decides tomor-

row, the trend in the foreign

has been bumping along at record lows against the dollar, appeared to pre-empt a cut by the ECB. As the latest purchasing

broad euro-zone economy is slowing visibly. And yesterday the euro continued to trade at close to 1.3 to the dollar against the 1.17 at which the single currency

were taking a more prag-matic approach. HSBC pointed to the strength of sure-zone money supply and weekend statements from Wim Duisenburg, BCB president, playing down the

chances of a rate cut. The M3 money measure rose 4.7 per cent year on year in the three months to reference rate of 4.5 per cent. Asian markets did little to

as tightening Olivetti and

Mannesmann's grip on

Italy's mobile phone market.

Popolare Commercio Indus-

tria was suspended limit up

when an official said the

bank was ready to launch

virtual banking. The shares

osed 62.09 higher at 623.15.

ZURICH put ABB in the

spotlight ahead of full-year

figures for 1998 to be pub-

lished tomorrow. ABB rose

SFr90 to SFr1,680, also

helped by a warrants issue.

Bank Sarasin, which rated

ABB an outperformer, said it

expected a jump in 1996

operating and net profits

from the group. The SMI

HELSINEI took a tumble

as Nokia was hit by further

waves of profit-taking after

the shares' sharp run-up to

index lost 86.1 to 7,225.1.

last week's 1998 results.

However, plenty of brokers edged lower for a second day and Hong Kong shed more than I per cent smid talk of book-squaring shead of the Chinese new year holiday beginning on February 16.

when Chinese markets can rally if the omens are right, although the onset of the year of the rabbit did nothing for direct China plays yesterday. The red-chip index extended its losses

analysis' seminar in London

could cut results by

Krittom this year. The gen-

ral index fell 4.28 to 3,345.98.

RRUSSKIS was pulled out

of the red by last-minute

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99.59 to 5.394.55.

10.29 higher to 8,455.19. How-

ne operator, was the

**DUBLIN** was dominated

to €117.01

Jakarta stock

Mr Mobius, known for Nokia sank well below its Monday New York close of €120.30, trading down €6.98 in STOCKHOLM Ericsson was a loser on news that the company's new T28 line of mobile phones would not significantly affect the group's results until the fourth quarter of 1999. The shares lost SKr5.50 to SKr217.50, also depressed by news from an

that the Real devaluation too little return," one trader said. They could do well in get killed on the exchange If it looks like the runish

buying after a day domi-nated by demand for finan-cial holding company Traders said Mr Mobius and a few other foreign Almanij in the wake of this week's restructuring of the funds had moved in during a few spurts in the share Almanij put on €1.60 to prices in the last quarter of €73 as the Bel-20 index edged 1996, when the index rose 54 per cent to end at 398. Mr Mobius may be trying to talk ever, Mobistar, the mobile up the market further, tradbrightest spot, soaring 67.95 ers suggested, estimating or 11.2 per cent to €78.96. Templeton has 3 per cent of its Asia fund invested here. Lower interest rates and a strengthening rupiah have had an unusually strong

by activity in Allied Irish Banks as recent rumours of an imminent take over bid, perhaps from Deutsche Sank, resurfaced. Allied Irish rose 95 cents to €18.15 as the ISEQ index put on

The Hex Index lost 185.12 Morgan, Berland Beneit, single large purchase. or 2.7 per cent to 5,901.65 as Gregan and Peter Hell "If you get an order for

# Jakarta hopes rest on rupiah

Indonesian share prices weakened yesterday despite an endorsement from Mark Mobius, managing director of Templeton Asset Management, as analysts said most foreign funds were still waiting for the rupish to sta-

exchange index nudged lower along with other markets in Asia, down 3.94 to 405.16 as investors took profits in shares of heavyweight Telekomunikasi Indonesia. the telephone utility.

moving markets with his predictions, was quoted at the weekend as saying Indonesia offered the greatest potential returns, though at the greatest risks, of all Asian markets, But traders in Jakarta said they had not seen Mr Mobius or any other major foreign player buying much of anything recently, keeping trade volumes around a paltry \$30m.

"It's too much effort for the market but they could rate. So they won't buy now. will stabilise, they will flood

effect on Jakarta's shares because volume is so low, and focused on blue chips. That also helps explain why even the more stable companies see share prices rise and fall by 10 to 20 per cent a tari and the fisheries of Dava day, based on rumours or a



one day," one trader setd. Share movements have less to do with a recovery of or corporate sector, although some believe both have hi bottom and this is the time to buy. Most still expect an economic contraction of 3 in 5 per cent and more pain for

None of the large compa nies have restructured of shore debt, but some, includme Bakrie and Brothers, an reporting progress. Sales though stronger then expected for essentials such as food, are still tapering off.

Indonesia is also bracha for renewed social unrest Paramilitary groups loyal to former president Suharts have been accused of organ ising riots, and the first real election campaign in 40 wears is expected to spark clashes between parties.

"We recommend buying the more liquid stocks," said David Chang, of Trimegah Securities, "We expect the over the next few months." In a report yesterday, Trimegah recommended the highly liquid shares of Astra International and HM Sammoerns, as well as mining group Aneka Tambang, palm oil producer Astra Agro Les-

Sander Thoener

# **Sell-off hits** blue chips and tech leaders

selling wave hit Wall ing leading shares and bonds selling off as the Federal open market committee opened a two-day meeting, writes John Labate in New

In early afternoon trading, the Dow Jones Industrial Average was down 101.70 or 1.1 per cent at 9,244.00 and the broader Standard & Poor's 500 index was off 18.74 or 1.5 per cent at 1,254.26.

Sentiment was strongly negative, with declining shares outpacing advancing ones by a margin of nearly 3 to 1 in New York.

US Treasuries weakened as the dollar fell against the yen in the morning. By early afternoon the benchmark 30year bond had lost % to 100%, sending the yield higher to 5.241. The sell-off in bonds came a day after long bonds lost more than one point after the release of a stronger-than-expected

report on US manufacturing. High-tech stocks led the way downward as investors took profits after weeks of gains for many leading stocks. The sell-off sent the Nasdaq compositè index down 53.27 or 2.1 per cent to 2,456.82. Among the leading computer-related stocks to some of the sector's recent cycle. fall, Hewlett-Packard was down more than 4 per cent or \$3.4 to \$78.4 and Microsoft fell \$4% to \$168%.

sell transport stocks after C\$88.55. several days of strong gains on recent fare increases in the airline sector. Shares of Northwest Airlines were down more than 6 per cent at \$26 and Continental Air-

shares in SAO PAULO lower from the opening bell.

The bank is to get its sec-

ond president in three

weeks. The Real, down

heavily against the dollar

since last month's devaluation, wobbled violently and

sets São Paulo falling

Shock news of a senior Bovespa index was down 269 management change at the or 3 per cent at 8,622 at mid-Brazilian central bank sent session.

ened, with Citigroup down \$1 to \$53% and BankAmerica AT&T shares also pulled back, down \$24 to \$91%, a day after announcing a new joint venture program

Investors did get behind shares of Perot Systems on its debut in the public market. Shares in the company, headed by billionaire entre-preneur Ross Perot, climbed to \$40%, a gain of more than 150 per cent on its offer price

Falling semiconductor shares sent the Philadelphia stock exchange's semiconductor index off 2.4 per cent to 401.82 TORONTO took its cue

from the soft opening on Wall Street and streamed lower in early trading. Banks were a weak feature and so were telecoms. At noon, the 300 composite index was off 84.84m at 6.690.60.

rates ahead of today's announcement on US monetary policy from the Federal Reserve led to profit-taking in banks. Royal Bank of Canada came off C\$1.80 at C\$78.30 and Bank of Nova Scotia lost C\$1 at C\$32.70.

Concern about interest

The profit-takers also homed in on telecoms and strong gains were unwound. BCE tumbled C\$1.95 to C\$65.80 while Northern Telecom, in which BCE has a big Investors also saw fit to stake, retreated C\$4.65 ot

> Alcan Aluminium fell 85 cents to C\$37.50 while Seagram came off C\$2.10 at C\$67.90. Golds were mixed. Barrick eased 70 cents at C\$30.30 but Placer Dome hardened 30 cants at C\$18.05.

MEXICO CFTY pared early

gained to post modest losses

with the IPC index down

# Profit-takers end Dax rally

The profit-takers swung into action in FRANKFURT, reversing a five-day rally of sending the Ketra Day index down 74.65 or 1.4 per cent to

There were a number of firm features, however. BASF rose €1.44 to €32.95 amid tentative takeover talk and Man, boosted by an upgrade from Goldman Sachs, rose €9.48 to €243.08. Deutsche Telekom lost €1.85 at €39.14 after a downbeat statement from Sprint

about costs at Global One, its joint venture with Tele-kom and France Telecom. Preussag came off €31.20 at 4440 after the diversified tourism group put out a

The FTSE Eurotop 300 Index fell 7.62 or 0.62 per cent to 1,224.70 See Baro Prices page. strong earnings statement

that included plans for a PARIS succumbed to profit-taking as analysts said the market had absorbed the news of the Paribas-Société Générale deal and was now marking a pause after Mon-

day's gains. The CAC 40 set-

tied 60.35 lower at 4,243.57. Renault slipped €3.30 or 8.7 per cent to 646 as investors cashed in on the stock's strong January performance. The company had surged on reports of good December and January sales which investors now think marked the peak of the sector's

France Telecom lost £4.30 to 682.50 on lower-thanexpected quarterly profit from Sprint of the US. The company blamed expenses from its Global One venture with Deutsche Telekom and

France Telecom. Banking stocks pared earlier gains, with CCF down €5.80 or 6.6 per cent to €82.50 efter a French broker util its recommendation. Paribas fell 62.05 to 690.10 and Central bank shake-out €149.40. BNP was €1 off at

or 1.8 per cent lower at cations international had

### beavy options trading and steep falls for Aegon and Unilever. Aegon shed £1.90 or 1.9 per cent at 696.70 while elsewhere among

francials ARN Amro loss 15 cents at €17.70 in 10.8m shares traded and ING fell €1.35 to €52.75. Telecoms group KPN provided the steepest fall, ending €2 or 4.2 per cent lower at €46. Software newcome

Seagull ended at €17.20 against a €15 flotation price. MADRID ended lower in slim volume, reflecting the negative mood in European markets. The general index closed 4.06 off at 850.06.

Reballers bucked the trend with hypermarket chain Pryca up 43 cents to 621.39 and rival Continents adding 85 cents at 626 as investors sought refuge from a turbulent global economy. BBV gained 18 cents to

€13.28 on hopes of further rationalisation in the banking sector, while Argentaria, another potential bid target, lost 23 cents to £23.50.

MILAN was lower after a subdued session which saw BCI and Banca di Roma pull back from early highs in spite of continuing hopes that they could soon announce progress on a long awaited link-up. BCI fell 4.2 cents to €5.81

and Roma edged up 1 cent to €1,325 as the real-time Mibbe index gave up 281 to 23,717. Olivetti rose 5.5 cents to Société Générale €3.60 to €3.40 as the group said its sweetened joint bid with 77. Germany's Mannesmann for AMSTERDAM ended 7.22 US-based Cellular Communi-

### Jo'burg winning run over

13.22 at 4,043.46 at midses Profit-taking A steady peec and hopes for robust earnings in the results season sent shares higher at the outset, but the Telebrás fell 6.4 per cent to sell-off in Brazil rapidly

Golds gave up much of their halted Johannesburg's winning higher at 942.0.

weaker, down 65.0 to 6,700.2.

Canning group Del Monte Royal Foods surged 20 cents to 190 cents as pineapple prices climbed to an eight-

# a session marked succeeded. The deal is seen

### SOUTH AFRICA

streak and the overall index gave up 38.1 to 5,786.2, dragged down by a 47.4 fall to 9.004.2 in financials. were also Industrials

morning gains to close 0.7

## R\$123.50 and the benchmark unwound initial gains. Miyazawa triggers rate fears

### **ASIA PACIFIC**

Concerns that rising interest rates could choke progress towards economic recovery drove TOKYO lower, as investors kept a keen eye on statements by Klichi Miyazawa, the finance minister, urites Alexandra Harney. The Nikkei 225 average

sank 115.35 to 14,349.83 after Mr Miyazawa said he would leave the rate on the 10-year benchmark government bond to the market.

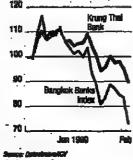
The comment gave rise to fears about the detrimental effects of a rise in interest rates on Japan's recessionbound economy. The Nikkei swung

between 14,285.96 and the back of the strengthen-14,459.81 during the day. Among broader measures, the Topix index of firstsection shares slipped 5.64 to 1,113.73 and the Nikkei 300 lost 1.21 to 171.67.

banks, exporters, and construction companies. Sakura Bank slid Y4 to Y269. Fuji Bank fell Y23 to Y461, and Sanwa Bank was down Y40 at Y1,070.

Japan Development Corporation, the failed construction company that filed for was the second most heavily

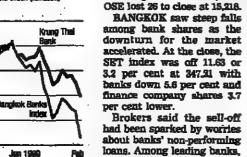
### Stone origin and locks during



traded share and finished unchanged at Y1.

on Izutsuya, a retailer, and Janome Sewing. Izutsuya was the most heavily traded share, falling Y17 to Y433.

Janome lost Y5 to Y155. Trading volume was weak, with 314m shares exchanged. bankruptcy late last year, Declining issues outpaced advancers 679 to 459, with Daewoo gained Won130 to ale's bid to buy Parihas.



per cent to Bt14.50. Thai Farmers Bank came off Bt3

Blue-chip stocks dipped on ing of the yen to as low as Y114.57 to the dollar in the afternoon. NEC, the electronics group, lost Y13 to Y1,171, Hitachi tumbled Y16 to Y799, and Sony sank Y110 Trading was heaviest in to Y8,410 - its first decline in five sessions.

Speculative trading preyed

at Bt53 and Bangkok Bank Bt2 at Bt06.80. SYDNEY ran into profittaking after hitting a record high on Monday. Telecoms leader Telstra shed 25 cents to A\$8.90 and media giant News Corp fell 12 cents to A\$11.75. The All Ordinaries index lost more than half Monday's gains, finishing down 16.7 at 2,907 9 in heavy

A\$1.3bn turnover.

Krung Thai fell Bt2 or 12 1

SEOUL closed 2.5 per cent lower as profit-taking and futures-linked arbitrage selling dragged the composite index 14.39 down to 567.28. Blue chips were among the HK\$193, giving back Mon-

162 shares finishing Won6,500 on speculation, unchanged. In Osaka, the denied by the company, that its planned takeover by Sam sung was nearing a break through KUALA LUMPUR fell as

foreign investors, disappointed by the government's reluctance to ease capital controls, sold banking and promise shares. 11.88 to 574.81 after local institutional investors res

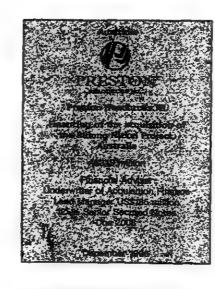
cued it from its 574.81 low in RHB Capital lost 12 cents to M\$2.46 while Commerce Asset dropped 16 cents to M\$3.30. Gaming company Magnum closed 17 cents

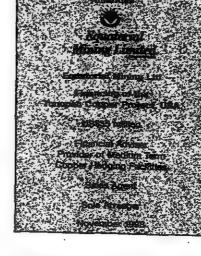
lower at M\$2.07. HONG KONG closed lower as Bank of East Asia reported 1998 results in line with expectations and HSBC gave back some of the late gains made on Monday. The Hang Seng index fell

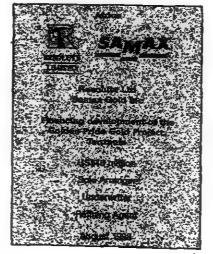
96.83 to 9,502.72 after a ses-

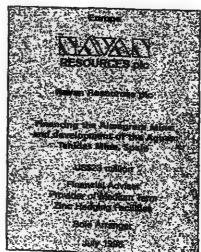
over was a slim HK\$2.3bn. Bank of East Asia picked up 35 cents to HK\$11.25, with demand spurred by shortcovering. In the opposite direction, HSBC fell HK\$4 to worst hit. Samsung shed day's gain, which came in Won2,100 to Won89,300 but the wake of Société Génér-

# **FINANCING MINES AROUND** THE WORLD





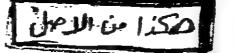




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HHE MARKET FOCUS

# Jakarta hopes rest on rupiah

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# **YES AROUND**





# MATION TECHNOLOGY

1001. Jul.

WEDNESDAY FEBRUARY 3 1999

Monthly series, next issue March 3, 1999



Customer relations Key to selling more goods. and services: Pages 4-11

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Financial services investors explore new online markets: Pages 14-15



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Green computing Moves to clean up the IT industry: Page 13



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n the days before mass marketing, the local bank manager knew the names and ages of his customers' children, the corner shop knew which brands of breakfast cereal to stock for local families and businessmen bought their suits from bespoke tailors.

But all that has changed. Today, under the onslaught of cost-cutting, rationalisation and automation, many people never see their bank manager, the cosy corner shop has been replaced by an impersonal supermarket checkout and most people make do with moderately priced off-the-peg clothing.

Further radical change is under way. As Paul Ratcliff, managing director of Hatton Blue, a UK-based Customer Relationship Management (CRM) software developer says, "more and more companies are realising that the conventional mass production model on which consumer marketing has been

Instead of focusing narrowly cost-cutting measures and improving efficiency, more and more market leaders are re-examining their business strategies and deciding that relationship management are th keys to future growth.

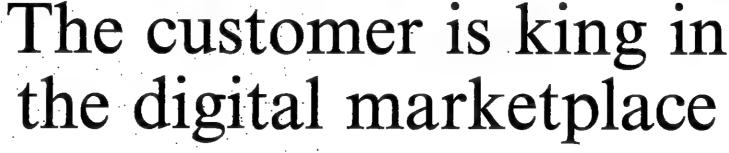
Specifically, leading proponents such as Mr Ratcliff argue that CRM systems and related technologies can help companies improve the rate of new customer acquisition by tailoring products to an individual customer's requirements. They can also help to identify existing customers who generate the most profit, and keep them for longer, and assist in the cross-selling of other products in the portfolio to both new and existing customers.

To achieve these benefits, CRM vendors argue that companies must adopt an integrated approach to customer nanagement. This should draw on a number of technologies, including database mining. echniques, business intellig software and advanced or "intelligent" call centre systems. helping capture, relevant customer data, as well as handling customer contact via multiple channels, including the internet.

Using these tools, they suggest will help manufacturers and other suppliers understand their customers better and move towards what has been described as "mass customisation" or the ability to cater to a "market of

"Companies across the world recognise that to survive in an increasingly global and competitive marketplace, strategic focus on the customer is critical." savs an Andersen Consulting report, prepared by the Economist Intelligence Unit Increasingly, companies are taking a holistic view of their customer relationships and focusing on the lifetime value of those relationships," says Dale Renner, global managing partner of Andersen Consulting's **Customer Relationship** Management practice.

"In the past decade, particularly in the US, we've seen lots of restructuring, downsizing and so forth and in the whole process we have lost sight of the customer," he says. "The real



Under increasing pressure to win new markets and keep consumers happy, companies are relying heavily on specialised IT systems, writes Paul Taylor

going to increase revenues while still keeping costs in line?"

The answer, he and other experts such as Steve Swanson, head of Cap Gemini's Global CRM practice, argue, lies in switching attention from back office systems such as enterprise resource planning (ERP) to front office systems and enterprise customer management (ECM) or customer relationship management systems.

"Two years ago, this market didn't exist," he says. "Now, people want to know how they can improve their customer relationships." Cap Gemini's CRM practice is focused on the maxim: "Know, Target, Sell and Service". "You need to know who vour customers are first," says

Mr Swanson Often, that is not as simple as it sounds because many organisations have multiple customer databases - sometime with different departments controlling access. Nevertheless most consultants argue that building a common customer database lies at the core of an effective ECM strategy which will typically also encompass sales support, marketing support, customer support and quality

KPMG Consulting reveals that relationship". only 5 per cent of companies currently possess an integrated central database. "Many companies are failing to exploit one of their most valuable assets customer information," says Steve King, the KPMG partner responsible for customer

Even so, 89 per cent of respondents in the KPMG study claimed customer information was extremely important to the success of their business, Such concerns have helped make customer relationship management - and the retention of profitable customers in

particular – one of the hottest

subjects in IT consultancy. Several powerful forces are driving this market growth. Firstly, in many markets such as financial services and telecommunications, barriers to entry have virtually vanished, resulting in a flood of new entrants offering goods and services at a price and quality that has turned many sectors

into commodity markets. Crucially, notes Scott Webber, chief executive of Corepoint, IBM's CRM unit, most companies are now competing with increasingly commoditised products, so the only differentiation is the customer

·Meanwhile, ever shortening product life-cycles have highlighted another business reality. As David Allen of Acxiom International, a leading UK-based marketing database developer notes, "the risk and the profit lie in the customer, not the

product". When there was little or no supplier choice, customers were forced to accept second-rate service. But market liberalisation, the shift to global competition and the commoditisation of many products and services has changed the balance of power between suppliers and customers and these consumers have high

expectations. "There has been a real power shift from manufacturers to consumers and we have really says Andersen's Mr Renner. The second important factor

driving the CRM market is the weakening of attachment to brands. In a recent white paper based on research by Spike Cavell, the UK consultancy, Mr Ratcliff of Hatton Blue noted: "At the level of customer behaviour, brand loyalty is a dying concept.

"The war waged by manufacturers towards the goal of "total quality management" in

and increasingly we take excellence and low cost for granted. There is simply no need to favour a more expensive brand over a cheaper, equally functional competitor.

In many markets, where price has become the primary purchasing criteria, supposed customer loyalty has evaporated and market "churn" has become endemic, forcing suppliers to reassess their market strategies and focus on retaining profitable customers and differentiating their product offerings.

Even so, KPMG's study found that 43 per cent of companies could not identify the principle causes of customer churn, even retrospectively, and almost half were unable to identify customers on the point of defection. As a corollary to this, Mr Ratcliff says, "the cost of new customer acquisition is skyrocketing as the task of shouting above the noise of competing offers becomes ever

According to some estimates, it costs five to eight times more to acquire a new customer than it does to retain an existing one. Other startling statistics include the calculation that companies generally have a one-in-two chance of selling a product or

more difficult".

but only a one-in-sixteen prospect of selling to a customer with no

previous relationship. But not all customers are valuable. Traditionally, most organisations have discovered that 80 per cent of their profits are derived from 20 per cent of their customers and some customers may actually cost money to keep. "Firing a customer" is sometimes a necessary step if other attempts to turn the relationship into a profitable one fail, admits

Andersen's Mr Renner. The need to distinguish between profitable and unprofitable customers, and to win over new ones, explains the close interest in CRM. Definitions of what actually constitutes CRM vary considerably, but there is little doubt that the overall market for software that belos manage customer relationships is growing rapidly.

According to Boston-based AMR Research, which specialises in analysing the enterprise applications market, the CRM market will grow from \$1.2bn in 1997 to \$11.5bn in 2002 - a 58 per cent compound annual growth rate over five years. "As the market continues to realise the strategic advantages importance and revenue

cenerating ability of CRM applications, market penetration rill dramatically increase," says Peggy Menconi, research direct at AMR Research. "CRM is quickly becoming one of the application and will continue to spur significant mergers and ecquisitions. This business activity will result in the formation of dominant players being identified over time in this

amerging open market." Indeed, a top tier of CRM software suppliers is beginning to appear and mergers and gathering pace. For example, Siebel Systems of the US, the acknowledged leader in the sales force automation market, has broadened its product portfolio by acquiring Scopus Technology, a call centre company. Clarify and Vantage, both US pioneers in the call centre market, have also pushed into the broader CRM market through acquisitions.

Meanwhile. ERP software companies such as SAP of Germany, Oracle of the IIS and Baan of the Netherlands have all begun to move into the front office software market, either through acquisition or organic growth. For example, Baan icquired Aurum Software and SAP bought K&V Information. while IBM built its Corepoint unit around the acquisition of Software Artistry.

Oracle took a different route by developing its Front Office v3 software - including advanced call centre software and support for mobile sales and service applications using the hand-held Palm Pilot device - in-house. These moves underline the potential of the CRM market and the importance attached to it by many of the software industry's "heavyweights". The battle for the customer is now in full



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EMPOWERING THE

The UK company's takeover of AirTouch paves the way for a new generation of digital networks, reports George Black

Vodafone AirTouch, the mobile networks are expec- profit. Shares in Vodafone, 23m mobile network customcompany created by last month's \$62bn takeover deal. will before long be able to deliver a pan-European voice and data mobile network, fone official said that Air-This could put it some way ahead of its potential international competitors, in a business still mainly based on national markets, and turn it into one of the dominant forces in the future IT

Chris Gent. Vodafone's chief executive who will head the new group, said: "We (Vodafone and Air-Touch) share a vision of mobile communications as the principal platform for voice and data communications into the next century and have the people and assets to realise that vision." In the next few years, the

INTERNET ACTIVITY

the US-based Internet ser-

vice companies. @Home pro-

vides high-speed access to

the internet via a cable tele-

search engines and portals. The news that & Home was

to buy Excite for \$6.7bn

seemed to justify the inflated

though the deal only

reflected those levels

because it involved payment

in shares.

prices of internet stocks

ted by some industry analysts to take over much of the business world's data as well as voice traffic. A Voda-



Touch's widespread European assets represented 75 per cent of the reason for

Vodafone's takeover hid. The combined company will have holdings in 11 European countries, including all of the major markets. However, AirTouch's US operations make up more than half of its revenue and

@Home buys Excite

The @Home-Excite deal

may be part of an emerging

trend for new Internet-based

companies to seek partners

deal gave another sharp lift

to the Nasdaq stock

exchange, where many lead-

ing US information technol-

ogy companies - including

Netcall, one of those exper-

lencing a big rise in its share

those based on the internet

are quoted.

Already soaring Internet @:Home could deliver stocks were given a further Excite's information content

stimulus by the deal into homes by cable far fas-

between @ Home and Excite, ter than over phone lines.

vision network; Excite is one in order to claim a place in

of the leading Internet the first rank. News of the

one of the four government-licensed UK mobile network operators, rose sharply as investors applauded the audacious deal.

The new company will have a presence in 23 countries around the world. With a market capitalisation of around \$110bn, it will become the third largest public company in the UK and the largest mobile network operator in the world. Mr Gent said this would make the company the partner of choice for other telecommunications operators and manufacturers, as well as the operator of choice for

business and consumers. He predicted that it would have 40m subscribers by 2003. On completion of the deal, it will have more than

ers. The current market a 50 per cent market peneworld's industrially developed countries by 2003.

Explaining the rationale

for the deal, a joint company statement said: "As mobile telephony enters its next phase - the development of next generation technology and mobile broadband data the global operators will be best positioned to capitalise on the growth in the

Vodafone won the contest for AirTouch, which is based in San Francisco, after Bell Atlantic pulled out of the bidding, having offered \$45bn. After securing the deal. Vodafone sought talks with Bell Atlantic based in

RESEARCH DIGEST



uncing the merger: Chris Gent, right, Vodsfone's chief

New York, to try to ensure there. Sam Ginn, chairman its continued support, as Bell has a joint venture oper-

ation with Airtouch. interest, but the deal has purchases in the US in order and an international custo strengthen its position tomer hase of 4.3m.

IT merger explosion

and chief executive of Air-Touch, will become non-executive chairman. AirTouch Europe is regarded as is the largest wireless com-Vodafone's main area of pany in the world, based or its 17m customers. Vodafone raised the question of is the UK market leader, whether it may make further with over 5m UK customers

THE MONTH IN BRIEF

# Microsoft is embarrassed by success

Microsoft, the world's largest software company, amazed the investment community with a 74 per cent increase in net income to \$1,98bn in the second quarter. Revenue was 38 per cent up at \$4.94bn.

Ironically, industry analysts said the company was bound to be embarrassed by its success, at a time when it is defending itself in a Washington court against a charge of abuse of monopoly power. Meanwhile the company announced a two-for-one stock split and said it would invest \$500m in NTL, the UK's third largest cable television network operator, and pay \$300m for a stake in NTL, the Netherlands-based cable company.

☐ This month, Microsoft also emerged at the top of the rankings in the Financial Times annual FT500 survey of the world's most valuable businesses by market capitalisation. The software company replaced General Electric, also of the US, as investors' enthusiasm for technology stocks propelled the group's shares sharply higher.

### Intel makes record gains

Intel, the leading chip manufacturer, reported a record profit which also far exceeded the expectations of Wall Street. Its quarterly profit was up 18 per cent to \$2.10n. Intel said that demand had strengthened in the period and revenue reached a record level, even in the crisis-stricken Asia-Pacific region, But it expected revenues for the current

quarter to be down, due to the normal seasonal fluctuation. The company was ranked seventh in the FT500 list.

### iBM gains in quarter

IBM reported a 12 per cent incresse in fourth quarter net profit to \$2.3bn on a 6 per cent growth in revenues to \$25.1bn. The profit figure was slightly higher than analysts expected but the revenues were lower. Nearly 60 per cent of gross profit came from software and services, noted

### Strong iMac sales at Apple

Apple Computer reported growth in both revenues and profits for its first quarter, the first such increases in three years. Revenues were up 8 per cent to \$1.7bn, while profit trebled to \$152m. Sales of its iMac home computers. heavily promoted for their stylish design, have soared. The results were well above analysts' projections and are evidence that the company may be recovering its market

### SAP suffers a joit

SAP, the big German applications software company, experienced a fall in 1998 earnings growth due to a sharp sales décline in Japan: Fourth quarter net profit was down 15 per cent to DM712m (\$421m) on sales up 18 per cent to around DM2.6bn. Profits for the full year were 14 per cent higher at DM1.05bn; it had previously estimated at least 30 per cent growth.

Revenues from the Asia-Pacific region fell 22 per cent in the final quarter, while those in the Americas rose by 28 per cent and in Europe, the Middle East and Africa by 20 per

27/10

**#1574年 投資銀曜** 

State & B

### **Move to free the internet**

Chief executives of technology and media companies are getting together to try to ensure that the internet remains self-regulated. The newly-formed Global Business Dialogue on E-Commerce, a group made up of over 100 companies worldwide, alme to dissuade governments from attempting to control the Internet through legislation, arguing that this will damage the economy of any nation which adopts such

### Yahoo beats forecast

Yahool, the internet search engine and portal company, returned financial results well ahead of market forecasts, with profit of \$25m. Revenue was trebled to \$76.4m. Jeff Mallett, chief operating officer, said the company intends to extend the range of services offered to partners which sell products through its Internet site.

### Acer postpones share issue

Acer, the leading Talwanese personal computer maker, postponed a big international share issue for the second time because of market turbulence and currency instability. t said the issue would be delayed until May at the earliest. t was originally intended to take place last year. Taiwan's stock market began the year with a 4 per cent drop on the first day of trading.

Samsung's AST sale Samsung Electronics of South Korea is to sell 65 per cent of AST, its loss-making personal computer subsidiary in the US. The sale, for \$12.5m, is to a group of US investors led by Beny Alagem, former chief executive of the PC

manufacturer Packard Bell. Samsung is said to have invested around \$600m in AST since it bought the company in 1994. It will now be

reported its first full year of profit since 1993, boosted by increasing revenues from computing services. For the year, revenues were up from \$6.6bn to \$7.2bn, its transformation into a services business was marked by an annual net profit of \$387m, compared to a 1997 loss of \$853.6m.

Computer Associates, the US business software vendor, reported third quarter revenues up 10 per cent to \$1.36bn, with earnings per share up 7 per cent to \$64. Chairman Charles Wang said the software market remained "vibrant" as technology played a proportionally larger role in clients' ability to compete. But mainframe software sales were depressed by users' concentration on the millennium "bomb" issue. See also Y2K report, page 16.

E-mail address: gbg26@dlal.pipex.com

# Lucent acquires Ascend

The current applications ing the problem.

open up markets but will Alsop, a legal firm, on behalf

instead create more closed of the independent agency

trading communities, fore- Taskforce 2000. It appears to casts Ovum, contradicting upset the notion that it is

some widely held expecta- only the smaller firms which

Lucent Technologies, the US expansion. Lucent had also telephone equipment manufacturer which was formerly with Cisco Systems, the larg-part of AT&T, has agreed to est data communications

networking systems for telecommunications carriers, to try to develop it in-house. Internet service providers, companies and government bodies. This is the latest from AT&T and it raises the development in a trend of consolidation in the data communications industry, as telephone equipment manufacturers seek to expand their expertise from voice

Last year, Nortel, the Canadian telephone equipment manufacturer, bought Bay Networks in a parallel ware operations.

shown an interest in allying acquire Ascend Communica-tions for around \$20bn. company. For both Lucent and Nortel it was seen as Ascend is a leader in data quicker to buy in data communications capability than

are behind schedule in tack-

next 18 months, it says.

Even the best-known slec-

tronic commerce traders are

not vet into profit and only a

few of the world's top com-

panies have profitable inter-

Internet prizes to

Young companies are prof-

iting from the Internet.

while old established organi

sations are turning their

back on a potentially very

profitable way of doing busi-

ness, says a report from the Butler Group. Many organi-

sations may be unable to see

the promise of electronic

business because they are

suffering from "IT

problems persist

nium "bomb" problem.

fatigue," it suggests.

Year 2000

the young

This is Lucent's largest acquisition since being split question of how easy it will be to merge two companies with very different corporate

Lucent's new broadband networks group will comprise Ascend and Lucent's own data networking systems, optical networking

incorporated as AST Computer. Fewer than half of the Unisys back in profit

UK's larger companies have spent more than 60 per cent Unisys, the US information systems and services supplier, of the money they have allocated to solving the millen-This was the main finding of a survey by Dibb Lupton

### CA shows rise in quarter

George Black

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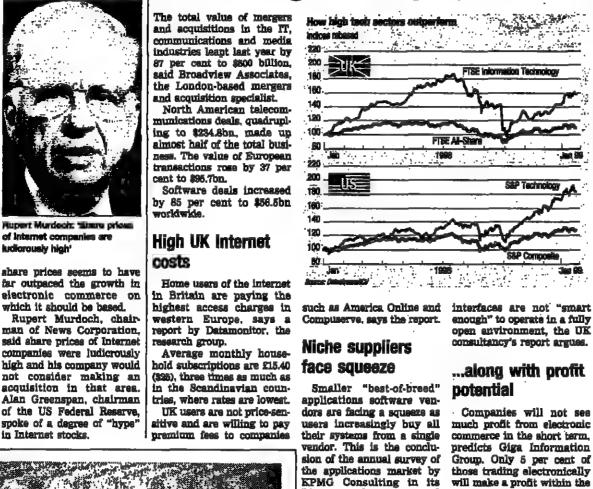
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Retallers in Britain risk

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warns a report by Fletcher

tesearch. US groups have

"stolen a march" in sectors

such as computing and

books by offering better ser-

vice and better value for

Half of the UK's top 50

retailers still have no online

presence, according to the

report, and many that have gone on line are not spend-

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E-commerce hopes

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### The FT Review of Information Technology

This review is published on the first Wednesday of the month. In addition, information technology articles appear regularly in 'Inside Track' in section one of the FT. The IT Appointments section is also published each Wednesday.

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INTERNET VIEWPOINT: DAVID PETERSCHMIDT

# Online search specialist goes shopping

To prove the scalability of

their project, the two com-

puter scientists looked

around for an application

then would validate the tech-

nology. The "test" applica-

tion Mr Brewer and Mr Gau-

thier seized upon was the

first Internet search engine.

inktomi's origins

are a classic

success story

this network of workstations

really worked." but the idea.

for setting up a business

actually came from Mike

Stonebreaker, the database

Ingress who is also a profes-

sor at Berkley.

California

The company which helped the Internet cope with ballooning traffic volumes is now taking a close look at the electronic shopping market, writes Paul Taylor

Inktomi, the Silicon Valley the right place at just the start-up run by David right time. Peterschmidt, can claim The group's founders were much of the credit for keepworking on a federallying the Internet running, funded project simed at despite the doomsayers who developing supercomputer have periodically predicted power at microcomputer prices by clustering low-cost its imminent meltdown. off-the-shelf workstations,

Internet software developed by the San Mateo-based company - named after a able power," says Petersch-Lakota Indian mythological spider character - has nabled many of the largest Internet infrastructure and media companies to cope with the exponential growth in the number of Internet users, web sites and network traffic

Having signed up many of the leading Internet and media companies for its core search engine and network cache technology, and seen its share price soar in response, Inktomi is now turning its attention towards the next "hot" Internet market - online shopping.

In November, a secondary share offering was priced at \$140 a share, valuing the company - founded three years ago by two Berkeley university researchers, Eric Brewer, chief scientist, and Paul Gauthier, chief technology officer - at \$3.4bn. I think the combination

of sticking to good execution midt. of a well thought-out strategy - with the next piece of that strategy being online shopping - just really caught Wall Street's imagination," says Mr Peterschmidt, who is chief executive, Inktomi's origins are a classic California success story mixing technological knowhow, entrepreneurial

had just seven employees, a shop in Berkley and a mission statement that envisioned the Internet search human kind."

"This gave them very scalgoing to be able to crack."

In the database industry we used to think if we could get a 100 Gigabit to 200Gb database we would be doing handsprings down the hall and shouting from the highest rooftops, and yet the technology Inktomi had under the search engines started at terabytes and

By focusing on the tachnology, Mr Peterschmidt says the company was simply playing to its strengths. We believed fundamentally that we wanted to leverage the technology and not have a company where the headcount had to grow in direct relation to the revenue," he

"If you think about the Internet, it has this infinite scaling document database and that rather than branding its you have got millions and own service, an annuity revmillions of users - it is the wine stream model was best. world's largest global enterprise computing environtime and quite frankly, we ment," says Mr Peterschlooked at each other across the room and said not one of "The search engine was us was a branding expert or just the proof validation that a media content expert."

small office over a sweet engine as "providing global information access for The group's new chief

executive was nevertheless found. "My thought was that the Internet was going to have a huge scalability problem that none of the legacy software companies were

went up from there.

The company also decided "There were 12 of us at that

The strategy worked. Inktomi's search engine now powers many of the world's leading search sites, including AOL's ICQ service, Geo Cities, HotBot, NBC's Snapl, ploneer and founder of Yahool and the Disney Inter-Mr Peterschmidt joined users will be unaware of it. Server network cache soft-

web from an Inktomi part- 1.2bn hits a day. ner, such as HotBot, the query is sent to a cluster of inktomi-operated computers. work, PSI Net. Bell Canada. Within about a quarter of a Nextel in Scandinavia, "We covers over 100m documents now have about nine or 10 to return a relevance-ranked major network cache cue-

Mr Peterschmidt says getting into the search engine business early had other benefits, in particular it helped the group identify the high level of redundant network traffic as a key problem - and another business opportunity.

Redundant network traffic ties up bandwidth and happens when users request the same material over and over again from the same location. "We thought if we could crack this problem we could really facilitate the Internet."

net of remalts.

The result was the development of Inktomi's network cache software, launched early last year and targeted at the world's largest Internet service providers and telecommunications groups.

new product was America net Guide - although most Online - AOL's Traffic flair and the luck of being in Inktomi in July 1996 when it When a user searches the wars now handles about looking for the next applica-

Other Traffic Server customers include @Home Net-NTT in Japan, and Telenor

tomers," Mr Peterschmidt Inktomi reckons that while annual bandwidth demand is increasing tenfold on average, annual bandwidth supply is rising only by a factor of three. The software, which speeds Internet traffic flow by intelligently storing or "caching" frequitly-requested information

closer to the user, is designed to address this increasing gap between demand and performance and ease the notorious 'world wide wait". By minimising redundant

traffic, Traffic Server increases effective bandwidth and reduces telecoms costs. Had it not been for this technology, some of those premonitions about meltdown or the medium The first customer for the collapsing might well have

> "We are the elephant hunters of the Internet; we are

tion that will not scale, where the internet will bog down, move there and see if we can solve the problem before it becomes a problem," says Mr Peterschmidt.

"We get to do that because we are sitting in the catbird seat on the Internet - if you look at our partners today. they are all the major companies of the Internet and we are interfacing with all of . them. Because we are technology-based, we are looking at the guts of the Internet. everyday."

At one stage, Inktomi considered developing an e-mail application, "but we couldn't ... understand how to make money with it because it is. basically a give-away today by the portals he says. "So: we backed away from

Instead, Inktomi began: looking at shopping and con-"about 10 times more computer intensive than searching." Crucially, that is because Mr Peterschmidt believes online shopping? must be about more than simply finding the lowest

He argues that a really good internet-based shopping service has to be integrated with a search engine, . pull in other data such as product reviews from organisations such as Consumers Digest and link to information supplied by merchants. Mr Peterschmidt believes Inktomi's strengths in network scalability and performunos are well suited to the

needs of e-commerce. But this time, instead of building its own application from scratch. Inktomi acquired CXB - a consumer orientated online shopping pioneer - in September and integrated the technology. Inktomi's Shopping

Engine software is the company's first venture into e-commerce, a market which Jupiter Communications predicts will encompass 33m . online shoppers, generating \$17bn in revenues by the year 2000. Assessing the development

of the commercial internet so far, Peterschmidt says: "I think we are entering just the beginning of the early. maturity stage, and we are moving out of the high technology stage in some aspects. of the Internet. " But other applications,

such as online shopping,

TECHNOLOGY WATCH: THE EURO'S FIRST MONTH by Geoffrey Naim

# A smooth take-off for new single currency

After all the nerve-racking preparations, the daunting IT challenge of Europe's historic monetary union was mastered with remarkably few headaches

Big information technology projects are notoriously difficult to control. But to the case of last month's massive euro conversion. everything went strictly to plan. The predicted pitfalls and delays failed to occur and IT managers breathed a

deep sigh of relief. "The euro is a text-book lesson on how to successfully manage IT projects," says Eric Steeghs, executive vice president for IT at ABN Amro, the large Dutch bank. The changeover had been planned for three surprised at how smoothly

things went. "You become somewhat cynical in this line of business as IT does not have a good reputation for time." The bank had 1,000 IT staff working in its Amsterdam data centre over the long conversion weekend, which stretched from December 31 to January 3: some 400 were obliged to work on New Year's Eve. the day when the conversion values for the 11 national European monetary union currencies

were announced. Around 95 per cent of the effort involved in the bank's euro programme had already been put in by December. but there were some critical tasks that could not be performed until the conversion rates were published on December 81. "Checking to ensure we inserted the right currency conversion values took most of the time," says Leendert Molenaar, vice president for the bank's euro conversion

The bank had 300 euro projects covering its investment, retail banking and back office systems. Mr Molenaar was present during the four days and admits he might as well have stayed at home as 20 tmemocrated problems occurred. "But you've worked years on a project.

you want to be there on the

hig day," he says. It was a similar story at other financial institutions. In London, some of the 80,000 staff working in the City over the weekend were able to go home early. Renters, the financial information group, completed its euro conversion programma seven hours ahead of schedule. Around 700 Rentlem staff worked over

the four-day period to

The project cost £10m.

convert 700,000 items of data.

blamed the problems on a high concentration of payment flows late in the day and banks' difficulties adapting to the rules of Target, the new real-time settlement system. To reduce the bottlenecks, the ECB temporarily extended. Target's opening hours during January.

The euro's impact has been most dramatic for the cuntral banks and stock exchanges in the euro zons. At a stroke, they had to abandon national currencies



In Taipei, an exchange clark points to euro-Taiwan money rate

Reuters attributes the success partly to four dress rehearsals performed in late 1998. Consultants agree with this opinion and note the high degree of preparation behind euro projects in the financial sector. "The conversion in the securities sector has gone extremely well and all the dress rehearsals and planning have paid off," says Alec Nacamuli, head of IBM Consultancy's Emu practice. The few problems that have emerged do not involve conversion of FT systems but rather the settlement procedures."

Some commercial banks complained of delays in settling transactions in the first week of trading in euros. The European Central Bank said the volume of transactions had exceeded its expectations but denied this had strained the capacity of its computer systems. Instead, the ECB

and switch over to the euro.

In retail banking, the effect

has been more muted as most customers continue to use accounts denominated in national correncies. Only 1 per cent of ABN Amro customers have so far opened euro-denominated current accounts and the majority of these are Netherlands-based multinationals, such as Philips, which have most to gain from the single currency. In other sectors of the financial services industry, the birth of the euro has also been low key.

"From a competition point of view, we decided that it was important to be able to offer euro products early on, but it is surprising the extent to which we over-estimated customer demand," says Dominic Lymsden, operations director for Dublin-based Lombard & Uister Banking (LUBL), the leasing arm of

Ulater Benk LUBL has converted its IT systems to dual-currency operation. This allows suppliers to be paid in suros - big European car distributors have already adopted the euro – while LITBL customers in Ireland can continue to pay off their vehicle leases in familiar Irish pounds. LUBL has no in-house IT development staff and thus had to use external resources to convert its systems.

The maintenance of the

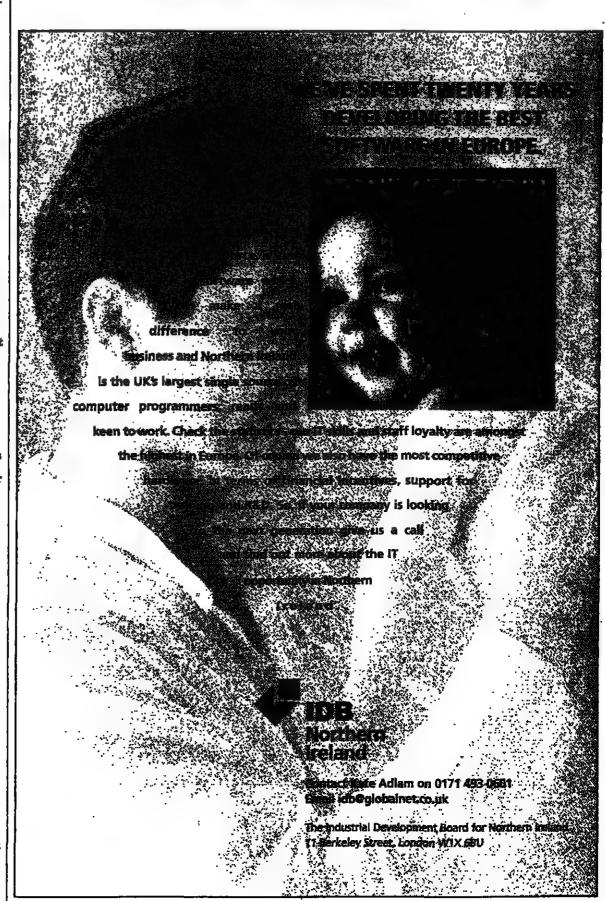
company's core leasing system is entrusted to ICL. which was thus responsible for converting the software to handle the euro. This work was completed in December. The suppliers of the company's other systems - a commercial banking package and a general ledger program - wanted LUBL to upgrade to the latest versions of their software to achieve euro compliance. But the new versions had features that LUBL did not need and Mr Lamsden decided the extra cost could not be justified. "We wanted

because in three years time we may move to a completely new IT system." So, the two suppliers reluctantly agreed to adapt LUBL's existing programs, making the minimum changes needed to handle

to take the lowest cost route

the euro. This strategy allowed LUBL to save over IC500.000 (\$735,000) in the case of the banking package. For the time being, LUBL will continue using Irish pounds as its base currency and its modified systems now allow transactions to be expressed in enros if a business partner requires it.

"In three years, when most of our transactions are in euros, we will have to take the decision to change our base currency," says Mr Lumsden. But few of LUBL partners have so far rushed to use the new currency. "There is a deafening allence in the marketplace."



# It's still an uphill struggle

Call centres should not be run primarily to save money, but to make money, to steal a march on competitors and to enter new markets. But the biggest obstacle to advance in call centres is the lack of integration with other enterprise systems

become mission critical for businesses ranging from financial services to the selling of postage stamps. But it is the technology upon which the channel is built that lies at the heart of success or failure.

Perhaps in this case more than any other in the IT world, the service is only as good as the software which delivers it. So how far has this technology developed be expected to emerge in the

"There are basically two component areas in the tre," says David Bradshaw, a consultant with the British research firm Ovum and author of its report Call Cen-

"One runs in the background and provides data-mining and analysis. The other deals up front with transactions, taking the calls and meeting the customer.

"Integrated together, the call centre network is potentially very advanced now. The customer can be identified before the call is answered, personalised options can be ready for the agent to offer and lots of prosses can be automated to improve the experience for agent and customer alike."

Workflow technology has been making much of the Tunning in recent advances. Call centres have always incorporated a degree of automation of business processes and Computer Telephony Integration (CTD) has built in the ability to distribute calls to suitable agents.

But it is a third type of workflow, which seeks to embrace the whole enterprise, that potentially has



It's good to talk: two thirds of those questioned for a Henier Centre report on access to government departments in Britain welcomed the chance to sort out problems - such as tax matter by phone. But calls that are not handled quickly and efficiently great irritation: see report on callers' reactions, page 9

This attempts to tackle the verities of complex processes which form real business environments as well as identify bottlenecks and promote collaboration between departments.

increasingly being recognised as a key technology in the most fruitful application. call centre applications,"

Technologies' UK managing

Lucent Technologies, not untypically, formed a close alliance last year with workflow vendor inConcert, part

presence felt in the call cen-

any other. "Caliback buttons" on web pages respond to the fact that customers are more than twice as likely

spoken to an agent, too. Internet technologies also promise to deliver information about the customer that is highly personalised. "The web makes practical technology solutions possible in a way that really was not viable before," says Gary Coville, manager of enterprise solutions with the US zall centre vendor Aspect Telecommunications. "Via a browser, computers are suddenly able to communicate regardless of the hurdles

to buy online if they have

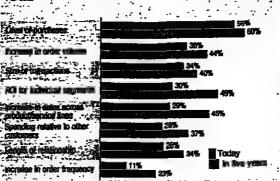
different operating systems or geographical separation. The trick is now to exploit this capability, over an intranet or extranet, imaginatively and skilfully to deliver a level of service that beats the competitor."

Improvements to Interactive Voice Recognition (IVR) systems are high on the igenda too. Customers are increasingly fed up with over-articulating "yea" and "no" down the phone.

that existed before, whether

Natural language technology, which interprets customer queries as they are naturally expressed, provides the leading edge. though to date only a handful of such systems are running in either the US or The industry needs a tool

that will avoid the need for experts in speech application design," says Bill Meisel, of US consultancy TMA Associates. He explains that a system which tries to anticipate what customers might say up front needs to be transcended by one that automatically creates a run-time speech interpreter to deter-



ler's requests as these are

He believes Unisys' new natural language tools are a significant step towards this goal since they require no coding by developers and so potentially reduce big devalopment costs.

However, it will come as no surprise to seasoned ervers to learn that, for all this technological potential its application lags far behind. The biggest obstacle to call centre advance is the lack of integration at the back end with other enter-

### Middleware

Advances in middlewere technology that binds differant software components together - are the key here. But there are definite problems of implementation.

In a typical bank, for example, the integrator may face systems built on an object-oriented backbone coupled to numerous customisad relational databases and a mainframe hierarchical data centre. And this is to say nothing of different vendors' proprietary standards. Middleware might manage one or two of these relationships, but integrat-

ing all of them is tricky. Harry Harris, principal consultant for Europe with British middleware vendor Candle, believes successful integration today generally requires a large investment up front in an overall IT architecture, for which few immediate returns may be

"But third party products are addressing end-to-end issues," he adds, explaining that the demands for smart call centres will be met by middleware "tricks" that in effect speak to heterogeneous environments and deliver real time perfor-

Technologically better news comes from Mr Bradshaw in the shape of dedicated call centre products that increasingly offer a wide range of capabilities which would take months to develop in-house.

The products are gradually getting closer to the ideals we believe they should meet," he says. "They will carry on improving, provided suppliers do not get too distracted by side issues such as fighting for control of the corporate web server. But, bettling for the Internet high ground saide, Mr

somebot ne on to the please?

five years in the design of custo Details of the report by the Eco costs \$495 (\$295), can be found on http://www.siu.com

deployed and that the chan-Dan Scott, marketing manager in Europe for the Canadian call centre vendor Nor-

tel, agrees with Mr Bradshaw in pointing out one prevailing attitude, in particular: businesses tend to regard call centres as cost centres rather than potential

The point is that call centres should not be run primarily to save money, but to make money, steal a march. on competitors and, hopefully, enter new markets.

"This is particularly the case when it comes to intan-

Customer relationship the call centre should be focused on, is such an issue of customers.

"But people in business still think about raw information and market data. Only technology can turn this into real knowledge."

Nortel is heavily committed in an educative push to get this message out to the market. If it and others succaed, a great service to technology as a whole will have for the benefit of call can-

**NEW BUSINESS APPLICATIONS** by Michael Wiltshire

capite Sounders signed 5 playings with a friend. New part of

# Vendors of call systems share a common vision

Contact centres will eventually integrate traditional customer services with speech systems and other digital applications

Call centres, or customer contact points, have traditionally operated by voice telephony. Thus the main system suppliers came from the telecoms community.

Today, however, new communication channels. including electronic mail and the web, plus innovative applications, are bringing other system vendors to the marketplace, especially from the networking and software

Call centre vendors are now converging towards a common vision: a customer contact centre that integrates in-bound and outward bound communications on a voice/ data switch, says the 1999 Technology Forecast by the PricewaterhouseCoopers ·

(PwC) Technology Centre.\* This voice/data switch will include standard operating system application programme interfaces (APIs); it will also support multimedia relationships, including synchronisation of data from different media and provide "a total customer view through access to workflow and other

says the PwC report. Furthermore, the addition of a knowledge-base capability in call centre applications will assist customer service representative (CSRs) to provide more efficient ESDODIAN.

enterprise applications",

Business investment in call centres is typically geared towards improving customer services. increasing staff productivity and generating additional revenues through what is termed "up-selling" or cross-selling. However, today's systems tend to be targeted towards just one or two of these goals, but future call centres will increasingly achieve integration of all three functions, says the PwC report. The main categories of call centre technologies

☐ Call processing: including automatic call distribution (ACD), which routes inbound calls to open customer service representatives (CSRs) and

manages the queue of waiting customers. Call processing also

includes predictive dialling, which automatically dials outbound calls and waits for someone to poswer before directing the call to a CSR. Another facility,

interactive voice response (IVR), directs customers to use touch-tone telephones to collect or provide information prior to (or in place of) a conversation with **Bervice representative.** 

Advances include speech recognition applications, plus digital recording and ☐ Computer telephone

integration (CTI). A common example of CTI is the use of a "caller ID" to capture the incoming phone number, select customer information from a database using the same number, and representative who can scan details about the caller on a telephone screen as the call

If the caller needs to be transferred to another CTI software enables all the gathered information to be sent on the other "rep".

Customer interaction software: this helps to

manage communications between customers or staff, usually assisting the service rep to solve a problem that prompted the incoming call. Advances in this technology will focus on integration of workflow/ routing automation that

service request, says the PwC report. Spending on call centre technology worldwide was \$4.5bn in 1996, although the bulk of this investment was in North America. Britain is the only established

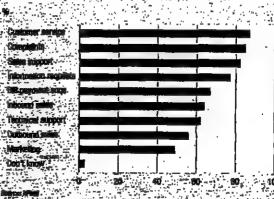
captures and redirects the

European market, says The market for inbound call processing systems was worth \$1.8bn, while sales of outbound call systems amounted to \$600m; sales for IVR systems were worth

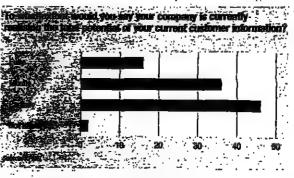
Call centre companies have long targeted verticalindustry markets for example, Pegasystems in the banking sector; and SCT

\$600m.

### Functions covered by call centres



Most companies with call centres tend to use them reactively, but functions given the least priority are outward bound sales and ing, says a new report. "Knowing Your Customer" by KPMG g. Only 16 per cent of companies surveyed sald they were recorded customer complaints, more than half the busin failing to respond by doing anything with the information.





Utilities supplying utility companies, while others (Clarify, Siebel/Scopus, Vantive), have offered more generic products. A recent trend has been for generic providers to offer product versions targeted at vertical

\* Technology Forecast 1999: \$450; details are available in the US on +1-314-997-1351; or fax +1-314-997-1851; useb site address: www.pwcglobal.

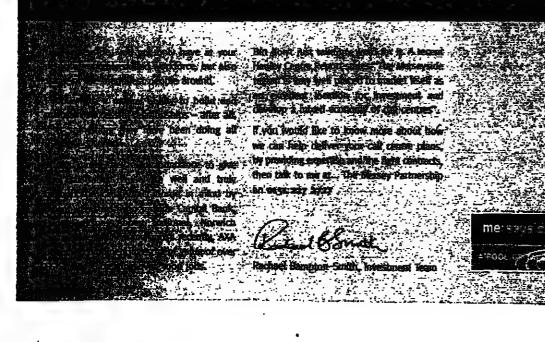
markets.

### com/tech-centre.

☐ See also: "Managing Customer Relationships lessons from the leaders": executive briefing by the Economist Intelligence Unit and Andersen Consulting: web site: http://www.eiu.co (e-mail addresses: newyork@eiu.com and

london@etu.com). Outsourced services: see report, page 7.





On Merseyside relationship building comes naturally.

Despite advances in automated call technology, most people want to talk to a real person, not just a disembodied voice

Compaq, the world's largest automatically routing a call maker of personal computers, manages to keep a healthy distance from one current technology vogue. Interactive Voice Response, or IVR, is the term for automated customer service lines that require callers to continue pressing telephone buttons as they are transferred through different service

Isin Murray, information management manager at Compaq's new £25m UK call centre in Glasgow, shares the popular distaste for IVR systems that demand too much time from the caller before a real human voice is found. "As a company, we have a policy of minimum use of IVR systems. Some people hang up straightaway when they get an IVR system at the other end of the

The Compaq call centre does employ some IVR technology, but Murray stresses it is a limited use, primarily for late-hour calls. "The whole point of having a call centre is that it allows you to talk to your customer.

One new method of getting in contact with those customers is a cheap and practical piece of software from a small UK company called PhoneMe. The service which PhoneMe offers to call centres consists of an Internetrelated freephone number that callers access by clicking a button on the screen of the company web site.

So a customer making an the PhoneMe button and is directed to type in his own phone number, which is then linked via the PhoneMe switch to the Glasgow call Centre. The PhoneMe switch decide to speak to the com-

from a Compaq call centre 83 per cent pick up their agent through to the prospective customer.

Damon Oldcorn, founder and managing director of PhoneMe, explains that simplicity and speed of service are key to his product.

For customers such as Compac, the important objective is to capture the interest of someone who has come across their web site while browsing on the internet before that person wan-ders off to another site."

The temptation to click on the freephone button is considerable, and as the phone rings back almost instantly there is none of the frustration of working through the disembodied voice and numerous prompts of an IVR

### Free calls

The fees that Compaq pays for the PhoneMe service are based on the billing structure of mobile phone companies. PhoneMe costs £495 (\$820) to set up for each client plus a monthly rental of £50. The calls are free to the individual caller, with Compag meeting the cost.

"PhoneMe is a novelty, and it's inexpensive for us to operate," Mr Murray says. But we are still looking for technology that goes beyond this kind of service. We see call centres as working alongside Internet-based queries."

But members of the public simple Internet-response option. According to the latest figures from Compaq, only 17 per cent of the visitors to its web site who call centre staff, it places 500 reconciles the two numbers, pany use the PhoneMe

option, while the rema Not every transaction

suits conventional telephone contact. Trevor Crooks, UK senior manager for call cen-tre solutions at Nortel, the Canadian telecoms giant, notes that some potential customers for credit card purchases prefer to enter their card details in a box on a web site screen rather than divulge them to a anonymous telephone operator.

Nortel's switching equipment sits at the heart of many call centres and company phone exchanges. Its Symposium range sells for between \$25,000 and \$500,000. Hewlett-Packard has

installed a Symposium centre software at its computer products support centre in the Netherlands. According to Mr Crooks.

the 450 phone agents there take 18,000 calls a day from across Europe, the Middle East and Africa. "HP has identified 650 types of call that might arrive there. So they have to be able to distinguish between types of call and route them to the right agent."

The Nortel Symposium switch contains software that picks up on the point of to an agent with the appropriate language. This is what Nortel calls "granularity". the shility to filter each call through the structure of a enquiry about Compaq hits have been slow to exploit the massive call centre to the right human voice. Call Centre Selection is a

niche recruitment agency

that helps select and train staff in call centres every year, with clients such as



"Can I help you?" An operator ana Electricity Board in the LIK. The Sp distribution system from Rockwell distributes calls have

to listen to disembodied

prompts from an IVR sys

tem. But that does not mean

that the boom in call centre

Neil Barrett is employed

by French computer services

group Bull to research the

ogy. He says the computer

telephone integration world

is beginning to take an inter-

est in computer games tech-

As the characters in these

games become more lifelike,

organisations such as BT are

looking at ways to employ

digitally created characters

With digital TV sets, more

and more people will access

interactive services from

home. So a helpline enquiry

could prompt a response

character appearing on a

digital TV screen to take

The nationality and per-

sonality of that character

would depend on the loca-

tion and demographic group

of the potential customer. It

seems that the human ele-

ment in call centres will

soon have another fight for

survival on its hands.

to staff future helplines.

recruitment will continue.

international calls group, and Card Protection Plan. the UK bankcard insurance

Managing director Malcolm Harris has watched the customer support line's love affair with IVR waning. "The original idea behind call centres was to allow companies to deal with customers in a human way. Then, IVR seemed like the best way of handling a large volume of calls. But it went too far. People become very irritated if they are trapped in an IVR loop demanding more and more responses from them. For most people, 45 seconds exposure to IVR is the limit.

After that they hang up." As calls begin to flow back to the human operator, companies realise that the quality of that agent reflects on their credibility. According to Mr Harris, the time taken to train a call centre agent has risen dramatically as businesses begin to worry about the image that each agent projects.

"Only a few years ago, agents were trained in two or three days. Now, companies will spend four to five weeks preparing a call centre agent to deal with their



CUSTOMER SERVICE CASE STUDY

# Fishing gear maker floats a helpful idea

product development and

The CTI system had to be

integrated with the IBM AS/

400 computer system which

database records. It decided

equipped Rolm system, with

automatic telephone number

matches incoming telephone

incoming calls to its bicycle,

Using Rolm CaliBridge and

fishing or credit divisions.

CallPath Server/2 from IBM,

calls are sorted and routed

to a customer service agent

customer records database.

Calls into the telecentre

along with any relevant

might be from dealers

from anglers needing

fishing rod reel.

placing new orders, from

cyclists wanting to replace

information on a Shimano

The Shimano account

menager automatically

Information on each call

the central database, a

history of previous calls

made by the customer; par

the customer; how these

queries were handled;

customer satisfaction.

account manager can

update the historical

products bought by the

queries and requirements of

customer; and the degree of

As the call proceeds, the

Information and access other

data related to the caller's

queries. Any complaints or

suggestions are entered into

from the CTI system: who is

calling; customer data from

receives the following

their older Shimano gears or

information from the

improving products.

manages its customer

on an ISDN (integrated

digital services network)

This automatically

numbers with customer

records to help route

dentification.

Applying computer telephony integration has produced information the company had not even thought about collecting

For Japanese company Shimano, a leading provider of bicycle components and fishing gear, installing a sophisticated call centre in its US subsidiary was part of a key goal - improving its customer service.

Shimano has worked hard service, guaranteeing its products with long warranties and promising to provide a double replacement for each faulty component.

The company has a world-wide reputation for the quality of its cycle components to protect. Cycling enthusiasts seek out machines that feature Shimano component and its ine of fishing gear has won a large and loyal customer

Shimano decided to select a computer telephony integration system offered by Siemens Rolm, part of attracted to the large emount of information a CTI system could provide its staff and the promises that such a system could not only improve customer service but also lead to a better understanding of its

business processes. Shimano invalled a Siemens CTI system in its irvine, Califomia, customer service telecentre which deals with enquiries from its distributors, dealers and customers.

it wanted a CTI system that could help it manage a wide variety of customer calls and enable it to capture information from those customers that could be fed back to its headquarters to help in

the appropriate departments. Shimano says the system

has been working well and estimates set-up time per call has been reduced by as much as 30 seconds and average hold times have decreased by 50 percent.

In addition, average call times have been shortened because the service agent is better informed of what a customer needs and can feed gueries and customer information back into the company for future action.

The Siemens CTI system also allows Shimano to use several applications not requiring service agents. Thus callers can gain access to information through an automated system and then choose to talk with an agent as an option.

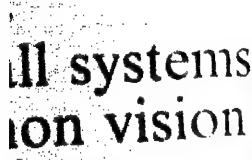
Shimano says reliability was a core Issue in its choice of the Slemens CTI system and that it had heard good reports from other mens customers about service and system stability. So far. Shimano reports. there has been no downtime since the system was installed. Bill Crane, the

communications manager at Shimano American, says the CTI system has enabled it to collect detailed information about every call that comes In to the company. "We know who made it, why it was made, how it was handled and all the ways it affected the customer database," he adds. CTI has brought other

benefits, yieldinginformation the company had not even thought about collecting. That has been fed back to its marketing and manufacturing divisions, enabling them to improve the quality of products.

Tom Foremski

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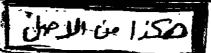


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# Why so many organisations are embracing the CRM trend

To be successful, any project in support of customer relations must be integrated with behavioural change across the business

Customer relationship management on to another market segment or is a term that will see plenty of use this year. A recent survey sloned by SAS Institute. the US software company, and carried out by Harris Research polled 100 large organisations in Britain for their views on CRM. While 59 per cent had a CRM strategy, 90 per cent did not have integrated data on their customers and could not get a complete picture of each customer's

The idea of bringing all that date together and selling goods and services more effectively is obviously appealing. But behind much of the talk about "customer-focused operations" lies a desire to shed unprofitable customers and concentrate attention on the profitable segments of the market.

behaviour and needs.

At Andersen Consulting, 4,500 of the company's 53,000 employees are now involved in its CRM Practice. Dale Renner heads this unit from Minneapolis in the US. He admits that "thinking of moving

eliminating some groups of customers altogether" is a good reason why so many organisations are embracing the CRM trend.

Stephen Izatt is a founding member of SCorp, a UK-based niche marketing and technology company that aims to bridge the gap between IT and marketing to improve its clients' understanding of their marketplace. SCorp's brief takes it right into the CRM world. but Mr Izatt is profoundly sceptical about the way organisations rush to embrsos CRM.

"It has emerged as a bit of a silver builet," he says. "CRM is pushed primarily by IT companies who go out there with a product that's really aligned to sales of their other computer software

My Izzit has identified a classic IT industry sales pitch, taking expensive software to the customer without stopping to ask what the user's business really

"To be successful, any CRM

project must be integrated with beltavioural change across the business. Good detabase and data mining tools are useful, but even then the suppliers tend to gravitate towards product relationships with other companies.".

Mr Izatt recognises a new corporate habit, using the popular CRM label to claim credit for some fairly basic business practice. "A lot of the functionality in CRM is good-old fashioned management of a customer base," he says.

Methods Application is a recruitment consultancy, locating and placing IT strategists and business analysts with clients including British Airways. Managing director Tony Webb is responding to the call for senior staff to create CRM solutions. But like Mr. Izett, he within a broad view of the trand.

"People have had marketing databases for a long time, CRM involves using older ideas, such as data warehousing, but using them British American Tobacco, which

last month made an agreed bid for

Pothmans International, has the deep pockets necessary to invest in large-scale change. It has spent £10th on a CRM operation pulling together data for staff in its wholenels distribution business

For Hans Medermann, London-based head of BAT's clobal trade marketing and distribution division, the real issue is what he calls micro-marketing. "We want to look at particula

customers in detail so we can improve market share by a measurable amount."

### Promoting a strategic brand in Europe

in Belgium, BAT has targeted specific stores and restaurants for Increased sales of Lucky Strike cigarettes. While Mr Niedermann's staff do not sell direct to these locations, they will follow up the wholesale distributor by visiting retail outlets and promoting BAT orands – and in Belgium, Lucky Strike is a strategic brand for BAT. Software from Slebel of the US.

which claims a dominant position. among CRM product providers, pulls together historical data on BAT customers and gives Mr Niedermann's "people at the sharp end", the field staff, the same information that BAT's marketing and distribution divisions possess. This customer information was traditionally held in functional silos.

Now, we have integrated it all." The project began in late 1997 and has been rolled out in six of BAT's national markets, it is an example of what can be achieved when CRM is hooked up to extensive spending and established business acumen.

The remarkable rise of call centres, with telephone agents aummoning up screens of data on each caller, provides the foundation for the CRM boom Talanhone quaries are an obvious point of customer contact and can While some large CRM companies react angrily to succestions that their activities are no different from the Computer ntegrated Telephony (CTI) business, others are more

pragmatic. Phil Padfield.

international vice-president at Inference, the customer service software house, addresses the difference between CTI and CRM: "CTI improves the operational efficiency of the telephone call centre. CRM is about the interface between the organisation and the

"We help people resolve questions, capturing best practice. so when a call centre agent uses the knowledge base brought together by us, it's like they're talking to the best person in the company."

Inference's Kcommurce software is used by customers such as Bupa, the UK private healthcare

At Bupa, customers can be signed up with one of 160 different types of policy. Many are part of a corporate plan, which means their company may shift to another health insurance group if they have call centre agent. Some existing customers could benefit by moving to a higher band of service, but the agent needs the right information to spot that opportunity. Kcommerce la dialogue-based

software. This means that the agent puts the caller's questions into the system in a truncated

Operating as a diagnosis tool, Kcommerce then identifies the subscribers' particular problem and provides options for that customer.

Bupa has 800 phone agents at two call centres in Britain. In the first three months that they were accessing Kcommerce, the rate of approval and agreement for treatment per call rose from 55 per cent to 75 per cent.

Bupa had found a way to retain existing customers in the highly competitive health insurance market and has now shortened Its claims payment period from 21 to three days because its executives have increased confidence in the

Bugs spent more than £1m on the entire project to integrate KCommerce with the call centre going live at the beginning of 1998. This is CRM, but it is effective CRM because it recognises the very definite call centre heritage of one of the IT industry's favourite acronyms of the moment.

SERVICES by Nuala Moran

# More companies seek specialist suppliers

Outsourcing the management of customer care services can help overcome the high cost of maintaining call centres

have put the notion of core competence at the heart of their marketing pitch, arguing that handing over control of computer systems and run on them will allow companies to concentrate on

core management functions. But when it comes to call centre outsourcing this argument begs the question: What could be more central to any company than looking after its own custom-

Modern business philosophy dictates that customer needed to set up and care management is the core activity in every company. tures are being redesigned to turnover suffered by the secraflect this, with the call centre no longer an afterthought hanging off the edge but completely integrated

into the rest of the systems. Given this, how could any company decide it wants the customer helplines to be run and staffed by the employees and one that may also be providing the same services for a competitor?

Yet the evidence is that increasingly, companies are the expertise of call centre outsourcing customer care service providers without to service providers. In 1997, having to invest in equip-

The IT outsourcing suppliers the US call centre services market generated \$18.3bn in revenues, with 15.5 per cent compound annual growth expected up to 2004.

This finding comes from the market research company Frost and Sullivan. which says that an increas ing trend to outsource call centre services is the main factor fuelling market

Companies are turning to specialist call centre outsourcing companies to overcome the dual restraints of the high capital outlays upgrade centres and the spirailing costs associated with increasingly, IT architect the notoriously fast staff

> Frost and Sullivan pinpoints an increasing focus on improving customer service levels as one of the factors driving the development of the outsourced call centre market in the US. It is also the case that, as specialists, outsourcers are generally able to run centres at a lower cost than in-house services. Outsourcing allows commanies to benefit from

the people providing customer care are at the lower sinhe Afi " inno "It is because the management of the customer interface is of critical importance that companies should consider outsourcing call centre operations. The skills that

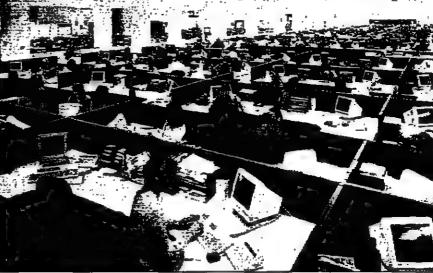
customer interface are not core to most organisations." Although employed by Teletech, call centre agents are given training which ment or human resources However, there is also widespread apprehension emphasises the culture of that outsourcing will reduce the company they will be internal control of a key representing, "These agents are full-time and are never function and make it impossible for companies to monishared with other clients, tor the level of service prohe says. "They become subvided to their customers. ject matter experts and Customers, both business receive ongoing training.

But, says Mr Coburn, there is much more to running a call centre than merely teaching people how to answer the phone. "There is a lot of complexity in this business, and it is difficult to

"If you are not a specialist, how are you going to cope if an emergency triples the volime of calls?

Outsourcing service providers, such as Teletech, provide customised packages in which they do everything from the ground up, including the centres, installing the technology and employing and training the staff. Increasingly, the interface

with the customer is not limited to the telephone. "Customers need to be able to make contact in the way that suits them, maybe by over the Internet," he adds.



director of Telecom Service Centres on the Isle of Bute in western Scotland, agrees. "The strength of our story is the people and our ability to integrate our call centre into the client's systems," he says. "For example, we are do I work for Alcatel?" seen as a branch of the Woolwich [bank] and send

"Similarly, with the Royal Bank of Scotland, we are online to their mainframes branch. We have access to files and can update them."

TSC also runs the British customer helpline for the telecoms company, Alcatel.

We are building such a high level of competence in Alcatel's products and services that we are often able to solve problems at the first Alcatel's own support staff,

e-to-business and consumers, now expect to be able

extent to which staff are steeped in the culture of the client company is reflected by a mery from one member of staff who asked: "Lennie, do I really work for TSC or

He suggests that the example, limits our turnover

"The point is that, although we have a tremen-

to between 3 and 4 per cent a year, compared with an industry average of 25 to 30 per cent, our staff strongly identify with the client," he

However, there is now some evidence that nervousto move outsourced services back in-house, according to The Merchants Group, a specialist call centre operator. This is enabling it to develop in-house expertise

and take back control of a very sensitive part of their operations.
"We have had many requests for staff to work as in-sourced personnel," says

Sally Elsdon at The Merchants Group. "Our staff take with them our standards of professionalism and productivity.

"Their ability to absorb the client company's culture results in a successful skilla

An example of in-sourcing is the Mercedes-Benz UK customer assistance centre, which has a team of 18 trained staff from Merchanta Group. Klaus Ulkann, director of parts and service for Mercedes, says: "We have achieved a high level of service and also a service that has the ability to devetail with future European development

A further eight Merchants staff will be 'implanted' into Mercedes' international call centre in

For more complex

enquirles, support technicisms

Should they be unable to solve the problem, the Dublin

centre is linked to Compag.

expertise centres throughout

Reading, Berkshire, Compaq

has established a unit dealing solely with Compaq products

relating to Cisco networking equipment.
Rather than noting any big

the biggest surprise was how

similar they are. "People's IT

He estimates that there are

huge so we have to be able to

Some countries do differ in

around 10m Compaq users

and 500,000 users of Digital

products in Europe, "The

Compag installed base is

amounts of traffic," he says.

their telephone manner. The

like queueing on the phone

and will hang up in half the

time the British do on average

if their calls are not answered.

The Swiss and the Spanish.

on the other hand, have

computer-operated voice

only part of the reason

Compaq is making the

their PCs," says Mr

Cadwallader. "The PC

business generates high

But customer support is

investment in Dublin. "Every

computer company is in a

race to crack the customer

lovalty test which will deliver a

new generation of buyers for

support costs - perhaps 3 to

4 per cent of the product. But

it is a small price to pay if you

can give such good customer

satisfaction that they will

always buy your products."

problems dealing with

systems.

Germans, for example, do not

handle potentially large

problems are uniform." he

differences in problems

encountered in various

Europe, For example, in



CASE STUDY IRISH CALL CENTRES

# Suppliers woo the next generation of PC users

There are now 100 Irish-based callcentres serving the pan-European market. employing approximately 12,000 people

The thousands of Compaq customers in Europe who ring the US computer group's support line every day are unlikely to have any idea where their calls are being answered.

The answer is Dublin, where new \$25m call centre has recently been opened to house the support operations of both Compag and Digital Equipment following the nerger of the two groups.

The new centre employs 1,000 people and is able to handle 3m calls a veer, a third more than Compaq now Gareth Cadwallader,

Compaq's director of customer services for the UK and ireland, says there were a number of reasons for choosing Dublin as the location for its European support operations. These included the high

level of information technology infrastructure in the Irish Republic, characterised by a strong network of IT suppliers. There was also the fact that Dublin has a highly educated and IT-literate young labour force and a bias towards foreign languages.

\*Dublin itself is seen as an attractive place to get young people from other parts of Europa to move to work," says Mr Cadwallader, For marry young people, working in call centres is seen as work

experience from which they will soon move on. The attractive location - the centre sits next to the city's University College - was an important factor in Compag's

Other PC manufacturers such as Dell Computer, Gateway 2000 and Oracle, the US software company, have also chosen Ireland for their

markets served from Ireland include South Africa, the Middle East and the US.

In fact, a medium-sized call

However, Compaq womies

Charlie McCormick

There is also a need to their goals. "It is about giving the customer the best possible experience. That is what we are always working

between languages and

Queries range from the

## DATA WAREHOUSING by Rod Newing Customer information is the fuel

position through ....

and to service there

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GEMINI

www.capgemini.calli

With data warehousing technology, organisations can fully integrate their customer service and relationship management applications to stimulate loyalty and maximise benefits

Organisations have an tion of data, whilst customer of communicating with their customers. These include direct response mail, call centres, branches in various locations, help desks, direct sales forces, web sites and digital television. However, each major system only provides information on part of the total relationship with

Customers increasingly expect all their communications and relationships with the organisation to be recognised by the staff with whom they deal. Thus a single integrated view of prospect and customer data is the essential foundation to supporting a range of customer service

The data warehouse is a single integrated view of the marketing channels, inc customer. It provides a strategic infrastructure for decision support that provides an ideal back-end to a variety of tactical front-end customer service applications. generally known as "customer relationship manage ment" systems.

They are two sides of the same coin, says Shaun Kelly, managing director of house, direct mail to a seg-Data Warehouse Network, an independent consulting and research company. "Data warehousing is the invisible 90 per cent integra-

The data warehouse makes possible complex analysis to understand the behaviour of customers, measure customer profitability, observe customer life-cycles, know how soon each one is likely to make a major purchase, learn what drives customer loyalty and assess each customer's penetration into the product range.

separate store of transac- ers and integrate communitional data that provides a cations across a range of

with each customer individrelationship management is trally causes the response the visible 10 per cent exploitation of that data."

All this enables an organi-

sation to communicate with customers through customer service systems and feed the results of that communication back into the data warehouse. This provides a machanism to understand the value of individual customing the call centre, web site, branches and direct mail.

This knowledge then drives more powerful marketing programmes. For example, traditional direct mail typically generates response rates of between 0.5 and I per cant. However, Mr Kelly says that through segmentation in the data warement of 20,000 out of 50,000 can raise response rates to 6-8 per cent

However, using the data

rate to rise to 50 per cent, he triggering a sales event every time a real world event happens in the life ofthe costomer, such as a change of job, marriage, children, holidays and so on.

to-business and consumers,

now expect to be able to deal

with a company by tele-

phone and have rising expec-

tations of the service they

will receive. This means

companies must be organ-

ised to deal with enquiries

using specially trained staff

who have the answers at

Steve Coburn, chief Illian-

cial officer of the US out-

sourcing company Teletach,

says this is persuading com-

panies to outsource.

"Although an organisation

may put customer care at its

core, the reality is that when

you look at the hierarchy,

are required to manage the

their fingertips.

Integrating the customer as an asset into the organisation is essential to a successful marriage between cusrelationship management and data warehousing," says Stuart Penny. managing director of Integrated Sales Systems, whose Oxygen software automates sales and marketing pro-

This helps to maximise data. return on the customer, as well as maximising customer enterprise approach to the retention, and enables the organisation to measure the costomer as an asset." David Musson, a business

ship as a closed loop system. The data warehouse is at more datus. the centre, because it is where costomer behaviour is kept and the relationship is data everybody needs withdriven from," he says. "It out creating 'point' solu-allows you to track costom- tions," adds Ms Down. ers individually, interact with them through the customer service applicationsand then integrate the feedback from those

Integration is vital in

customers. If they walk into the management informaa branch, the staff must know that they complained about something to the call centre yesterday."

Integration is a vital issue when considering the use of data marts. These are subsets of data set up for a specific application and fed from the data warehouse. They are vital to generating data, with different groups having their own data mart for different purposes, but based on the same data.

However, some vendors are encouraging organisaby implementing data marts without the underlying data with the single view of the customer and results in everybody having different

"It is vital to take an use of information," says Jackie Down, director of data warehousing at NCR, the US high-end data wareintelligence consultant at housing vendor, especially Siemens, sees the relation- as the advent of digital television will bring in a lot

> "The biggest problem is making sure you collect the "Those termited by the lower cost of a data mart would be better off looking for a prebuilt industry specific data warehouse solution to save

Another advantage of a

of a new industrial revolution tion it makes available. "The reporting components of customer service packages are the last thing to be thought about," says Karl Ward, data warehousing competency leader at KPMG Manage ment Consulting. "Call centre software is very good at automating call centre processes, but is not designed for decision support. You need a data warehouse to feed an analytical data mart for management informa-

Data warehousing is the

only technology that enables organisations to fully integrate customer service and relationship management applications in order to maximise the benefits from them. "The main problem is that too many companies still look at different areas of the customer relationship in isolation," says Phil Winters, president for European marketing at SAS Institute, the decision support specialist, rather than seeing customer relationship management as an integral element of overall business strategy."

The need for an enterprisewide information strategy has never been stronger. "Information is the fuel of a new industrial revolution." concludes Mr Kelly. "Information warriors are using mass customisation as their strategy and customer relationship management as their weapon. Loyal customers will be the spoils of the

There are, in fact, 100 Irlain-based call centres serving the pan-European market, employing approximately 12,000 people. Apart from Europe, other

srom etaneceo iliw entrec international calls than an average Irish city. that the demands of the burgeoning industry are exhausting even the rich

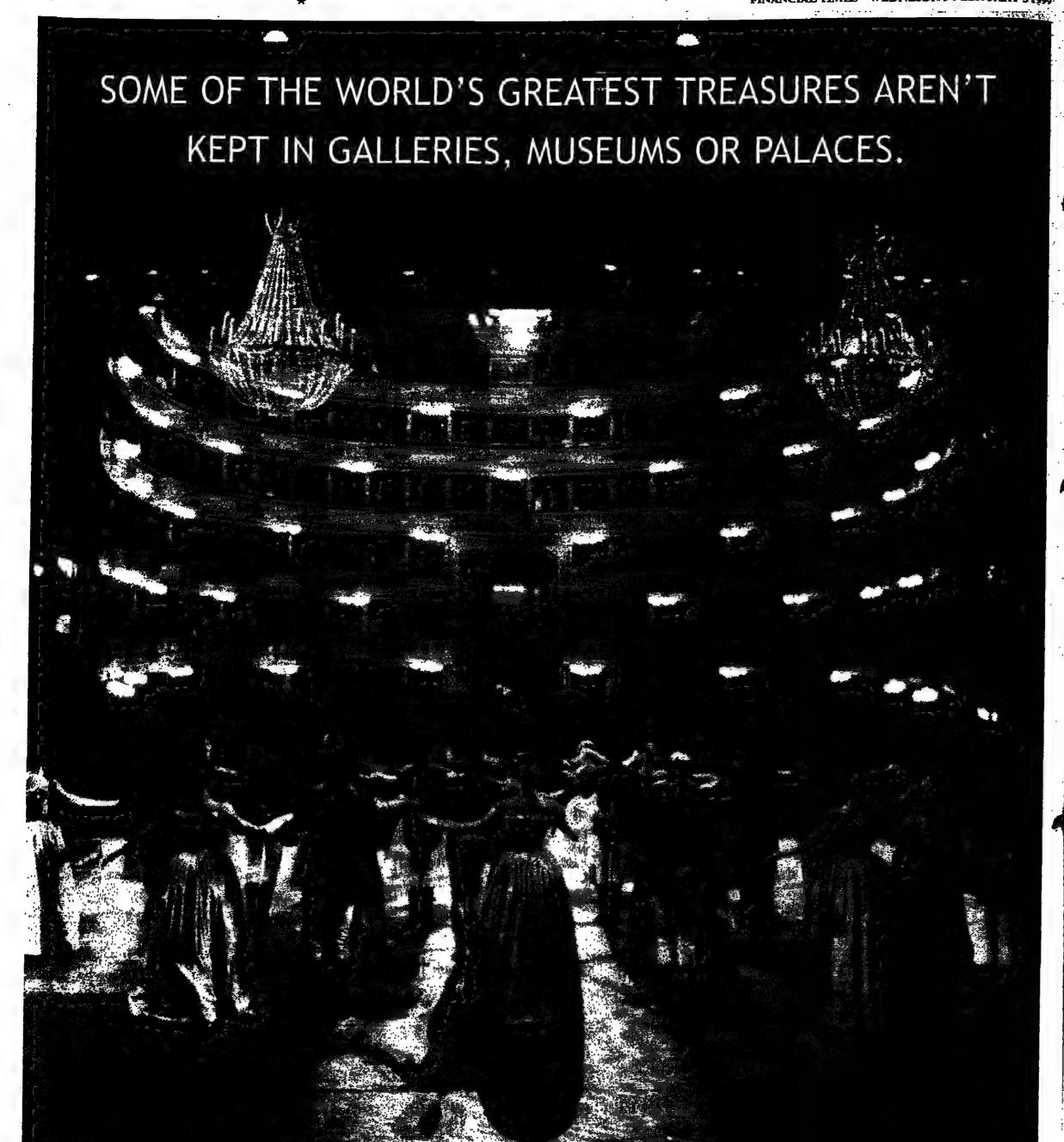
manager of the Compag centre, says this is the bigges challenge facing the new centre. "The difficulty is in getting staff with the right mixture of language and technical skills," he says. keep staff motivated towards

The centre supports nine European languages. Operators are divided

technical skills. The integrated call centre system, supplied by Lucent Technologies, routes calls, which are made to exchanges in the caller's country of origin, by language to those operatives able to speak that particular tongué.

mundane, such as the non-delivery of a particular product, to the complex. The frontline operators deal with the vast majority of calls, usually within 20 minutes for business customers, says Mr McComide. Home users are dealt with

Christopher Price





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It's impossible to hang Puccini's Manon Lescaut on a wall. Or place Tchaikovsky's Swan Lake on a plinth. But they are as important in their own way as Da Vinci's Mona Lisa or Michelangelo's David.

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# Technology in forefront of Spanish banking market

The primacy of the traditional branch is being increasingly questioned as new payment and distribution channels gain rapidly in popularity among customers

a ferment, with intense competition and falling margins driving a wave of consolidation and change.

WEDSTEDAY FIRM A

AREN'T

Technology is in the front line of this revolution, boosting productivity, forging closer customer relation. ships and creating new chan-

"The successful bank of the future will be a fully integrated, multiple-channel business," says Pedro Vichels, manager for Span-ish banking with Cap Gemini, the Anglo-French IT services group.

These are brave words in a country where cash has traditionally been king and bank branches can seemingly be found on every

street corner.
More than 150 banks compete for the loyalty of Spanish customers and the ratio of branches to customers is twice that of France and three times higher than in

But the primacy of the bank branch is being increasingly questioned as more Spaniards warm to the advantages of plastic cards and new channels such as automated teller machines. phone banking or the inter-

Also, the appressive expan sion of branch numbers has burdened many banks with bloated payrolls and high costs. The arrival of the euro has now set the alarm bells ringing.

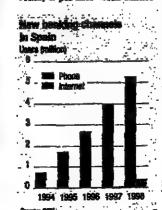
The sharp fall in interest rates that allowed Spain's entry into the euro-zone bas halved margins and forced the more profligate banks to cut their costs.

One obvious solution is to merge operations to achieve economies of scale, Analysts are already predicting a wave of consolidation among suro-cone bents that cannot adapt to today's leaner

Barely two weeks after the arrival of the euro, the dirstsuch merger was announced between two of Spain's largand Banco Central Hispano. The proposed new entity, BSCH, will have 6,350 branches, 17 per cent of the market, and be Spain's big-

BSCH hopes to achieve Ptalcobn (\$694m) in cost savings in three years through redundancies, centralising back office functions and reducing the hranch count.

"The expansion in branches is now coming to an end as banks realise it is gritted vd elegracy of very new ones," says Carlos Videl, a partner with Ander-



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**Carlos Vidal of Anderson** Consulting: The expansion of anches is coming to an end?

sen Consulting's financial

services practice in Madrid. The new focus is on improving efficiency of the branch network and the profitability of each customer. To achieve this, several Spanish banks have forged alliances with systems houses such as Andersen Consulting, EDS

The aim is to redesign their systems around a sinand so rationalise the mishmash of incompatible systems and antiquated technology, a common problem for larger banks which have

grown through acquisition. Traditionally, this has been a complex task, but Andersen Consulting claims the job can be made much easier using its Altamira product. This allows banks to build a complete retail banking system from a

Today, there are around 30 modules covering everything from treasury management to credit card handling. Altamira was originally developed by a small Span-

ish savings bank in 1989. Andersen took over the development of the product and has sold it to more than .70 banks. The product has under-

gone several evolutions such as the shift to client-server architecture and, more recently, Unix. BankBoston of the US and several Spanish institutions have used it to expand into the fast-growing Latin American market. Deutsche Bank, Germany's

iggest bank, which has one of Rurope's most extensive

gle coherent "framework" Altamira to build up its presence in Spain rapidly.

Mr Vidal says Altamira enables banks not just to handle transactions more efficiently, but also to provide detailed customer information that helps them to sell higher-margin products such as mutual funds.

Bankinter, one of Spain's second-tier banks, is way ahead in this area and its information technology systems offer a level of data and financial control that is the envy of entire industry. EDS is beloing Bankinter to sell the platform to other interested banks.

Technology is also poised to play a critical role in creating low-cost delivery channels. ATMs have led the drive to bring down costs, and Spain has one of the most extensive networks in

The latest ATMs do far more than just dispense cash. They can reserve cinema tickets, check job vacancies and charge electronic purses, while Santander says its machines will soon allow customers to buy

Telephone banking is an area where Spanish banks have invested heavily in succumb to the professional



Spain's has one of Europe's largest ATM networks

recent years. Today, more than 60 institutions offer DBK, a Madrid consultancy. telephone banking and the

cent in 1998 to 5m, reports The larger institutions

heads Banco Santander's virtual hanking division, says the average cost of handling a transaction by Superlinea is Pta52, and for the 70,000 users of its Internet-based service, Supernet, the cost drops to just Pta3. The average cost of a branch-based

are more than 60 banks offering telephone-based services. One of the longest

established is Santander's

Superlinea service, with

Francisco Rodriguez, who

around 700,000 users.

The most recent converts to phone and internet banking are Spain's savings banks, cajas de altorros, which see in this a way to extend their reach beyond their limited branch net-

transaction is Pta120.

The cajas typically have a year.

banking operations in the local or regional focus, early 1990s and today there although La Caixa, Spain's largest savings bank, has extended well beyond its native Catalonia and now has 3,600 branches nation-

La Caixa has a reputation for technological innovation and recently signed a deal with Microsoft to distribute Money 99, Microsoft's home finance package, to users of its Internet banking service. The deal will allow them to conduct transactions using Money 99 and receive real-

time financial prices. Today, 20 Spanish banks allow their customers to perform transactions on the Internet. Meanwhile, DBK predicts the popularity of this new channel will grow dramatically from 300,000 users in 1998 to around a million by the end of this

bad, too, but because bellig-

erence compounds other

Company is one British con-

sultancy that preaches what

many call centre managers

might regard as extreme

means, though only because

of the extreme need to reach

"When training agents, w

focus totally on how to deal

with people," says Tony Col-

line, chief executive. "This

means that agents must not

only enjoy what they are

doing but empathise with

each individual caller, vis-

ualising in their mind what

they are like."

the "satisfactory" end.

The Customer Contact

ble increase in cost.

in some way.

Eyretel, a British com-

pany, offers tool sets that

allow the quality manager to

set up an automated call

selection plan to monitor

and highlight calls that can

Gareth Johnson, head of

international business devel-

opment explains: "For exam-

ple, in the direct pension

operation, a typical call can

be expected to last a certain

length of time since a sale

"Calls that take longer

than this might be ones that

reveal problems either with

internal processes or with

will take, say, 10 minutes.

be classified as "abnormal"

**CUSTOMER REACTIONS** by Mark Vernon

# Keeping callers happy

The majority of customers say they would prefer to go to another company if a single telephone call is badly handled

For all its commercial ling customer frustration success, an increasing number of commentators are asking whether the call centre industry is actually in a cri-

The cause for concern will come as no surprise to many customer dissatisfaction coupled with agent attrition as those dealing with calls

and emotional strain. The simple fact is that customers no longer make allowances when on the telenhone as if the facility was some sort of novelty. That luxury has passed to the

Managers are now faced with placeting a wave of irritated and confused customers. The question is: how?

The good news is that people are now persuaded of the telephone's convenience and, even among the often scentical UK population, are more inclined to trust a disembodied voice. But any sign that customers are becoming dissatisfied is bad news for call centres.

"If calls are not dealt with quickly and efficiently, it rapidly becomes a consumer trritant," explains Marcus tre consumer research con-

"In fact, although the human elements of friendliness, warmth and professionalism take second place to the raw issue of speed, consumers are unforgiving on the human elements too. with 63 per cent saying they would prefer to go to another company if just a single call is badly handled."

The situation gets worse. The research shows that, although 33 per cent of callers describe their mood as optimistic before calling, only 12 per cent are in that frame of mind after contact. Seven per cent are despairing" and 9 per cent

are "furious". What is perhaps surprising s the extent of the savings that result from reducing the customer disloyalty that nisults.

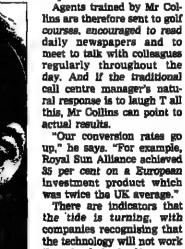
A recent article in the Bar-

vard Business Review predicts that reducing defections by just 5 per cent increases profits by up to 85 per cent for certain financial service transactions and by at least 30 per cent for more basic retail operations. The message is clear: tackpays. But if the problem is readily identified and the solution easily cost-justified. the remedy is another matter altogether. How can it

actually be done? Gartner Group points to one crucial issue in a report appositely called Call Centre Metrics: When Matrics Do Traditional metrics are

numeric. They measure call times and length of queues or completion rates, and so define efficiency.

However, while pointing



also keep tabs on an inevita- not just because unhappy

the tide is turning, with the technology will not work the miracle by itself.

"We see two changes in particular," says Tim Bishop, business marketing manager with Siemens Com munications. "First, call centre use is moving away from transaction processing to providing specialist knowledge. And secondly, organisations are getting focused on the lifetime value of customers rather than just the profit from an individual

Exemplar customers of Siemens implement automatic outbound call schedules to follow up on a customer's earlier call and systems which can recreate the call in every aspect to monitor the customer experience precisely, he says.

Furthermore, if a company expresses an interest to Sie mens in a call centre, one of its business consultants will first identify goals, assess implications and define besi

tomers. And it's hard work for us. too, when you come from a tradition of technology-will-do-it-all," Mr Bishop

# Orange builds a 'virtual call centre'

ridits and training to handle the cell. Orange employs 1,000 staff to handle customer enquiries

for Orange, the mobile deal with more than 250,000 enquiries a week via the company's UK call centres in Darlington and Bristol. Using advanced call routing technology from Rockwell Electronic Commerce, Orange is able to operate the two locations s a single centre operation This open call centre erchitecture thus creates a 'virtual call centre" across several sites, says the

In addition, Orange

actived value services, such as call-roaming and a "lost

elecoms company which employs 1,000 customer avice "reps". A services' helpdesk deals with a wide range of calls,

including billing enquiries, technical support and handset encuiries

operates several dedicated fines for specific All these calls are handled

within a combalised call centre structure. Rockwell's Spectrum system uses multiple skill queueing to ensure that each enquiry tically reaches an agent with the right skills and training to handle the

Computer telephony integration also provides information from a often database, mabiling staff to build closer customer relationships.

efically reaches a representative with the right

Orange says that the ed call centre operation is helping the company "to maintain the in the industry." increased efficiency

following investment in IT

call centre operation to

systems allows the Orange

handle double the number of calls, compared to 18 nonths ago, but with aims the same number of

Michael Willshire



according to a survey by ISE, the cell centre software spec These contact centres enable local authorities to provide

### out that this is important, the customers themselves. Gartner Group also says that issues such as customer satisfaction are rarely touched, let alone analysed in any In fact, relatively simple

issues reveal the extent of

the problem. For example, pure efficiency metrics encourage agents in bad habits, taking short cuts that save time but give, say, only partial answers to customer questions, or actually hanging up when confronted with too great a challenge. These clearly have a detrimental impact on customer satisfactraditional metrics might well produce "good" results.

So if the metrics need revision, how can this be drawn from voice data much achieved effectively? Automated tools are one solution

sation between a customer and an agent is registered as overlapping by more than say 10 per cent, this might well indicate some kind of confrontation, with customer dissatisfaction as the The goal is that the call centre be viewed as a busi-

"Alternatively, if a conver-

ness tool in its own right. Ultimately, what might be called "voice mining tools" can then be applied to voice databanks of recorded calls. Correlations which reveal unexpected opportunities, hidden reasons for customer attrition or suggestions for new prod-

as they are from data ware-

houses. Agent attrition is

"This is hard work for cusuct strategies might then be

# Customer relationship management - who will you choose for support?



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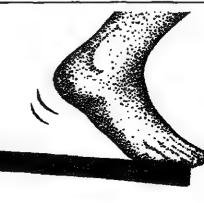
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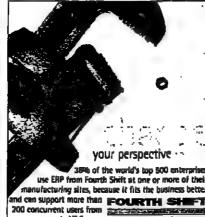
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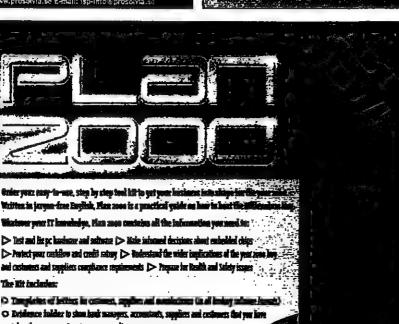
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# It's not just a question of knowing the language

ing," says Mr Valentine.

hire car company Hertz's

gold card call centre in Okla-

homa. This uses similar

technology to Graham's to

take calls from all round the

world. "The centre's local

knowledge is so good, they

not only know customers'

preferences, they can even

tell them how to get to [Lon-

don's] Heathrow airport,"

puter companies Dell. Gate-

Sitel, which runs phone-

says Mr Valentine.

United Parcels.

A multilingual call centre can offer many business advantages, but operators in service centres need to have lived in a country for a while to understand the cultural differences

Attitudes to service over the telephone vary between countries and freephone numbers are not uniform across Europe. So managing a pan-European call centre can be challenging.

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But, despite the technical obstacles, call centre managers say cultural issues are the biggest challenge.

"Providing service or support to different nationalities is not just a question of speaking the language," says Peter Robie, manager of workflow company Filenet's European support centre in Dublin, "You need to have lived in their country for a while to understand the cultural differences.

We have to explain things differently for French, German and English customers. And someone who spoke, arrive randomly, but you say, German but had never lived in Germany would have a very difficult time."

So Mr Robie only employs native speakers or graduates who have spent at least a year abroad. But, he says, the market for graduates with language and computer skills is "very competitive". ian Valentine, call centre

product manager at call-centre technology specialist Graham Technology in Edinburgh, believes softer issues are holding back the spread of distributed call centres.

Some companies have a "follow-the-sun policy", where a US call centre takes over when Europe is closed. But he says: "Very often the local knowledge isn't there. Or if the French call a US call centre and the French dialogue is not perfect, there is a barrier to get over."

Despite the problems, running a multilingual call centre has many advantages. Mr Roble says: "Staff can share their expertise, two people can work on a problem if necessary and we can have a very efficient call escalation

Process." There are also economies of scale. "Because the overeads are spread over nearly 20 engineers, Filenet can afford to have an on-site laboratory." he adds.

Thus, if a customer reports a bug, support staff can track it down to the precise line of code so the developers can fix it quickly.

"The bigger the call cantre, the more efficient it can be," says David Bradshaw, a consultant at the London research group Ovum. "Calla don't have to build in redundancy if you have many staff involved in different types of activity." The market for multilin-

gual call centres is fairly undeveloped as yet, says life Valentine. "But the good news is that technology can help overcome some cultural When a customer tele-

phones a call centre using Graham Technology software, the software knows by the number dialled which country the caller is phoning from. It then displays an onscreen script in the caller's

This means that a member of staff with, say, adequate French knows at once what to ask the caller and how to ask it. Local information can be included in the script and displayed at the same time.

**AGENTS** by George Black

# Pressure to combine web and call centre technologies

Customer contact centres need to adapt rapidly to the challenge of the Internet, otherwise they risk becoming obsolete

Visitors to a web site will call centre to a significant soon be able to conjure up a call centre agent in a box in the corner of the screen. If they have a query while looking at the site, they will be able to talk to an agent and get an answer.

Already some companies are starting to provide a voice response. Aegon, the Dutch insurance company, will offer a conversation with an agent to guide customers who are filling in forms on its web site.

People who have personal computers with speakers and microphones can take advantage of this service. Others can get belp through a dialogue without voice, or a "text chat".

Financial services companies will be in the forefront of introducing voice over IP (Internet Protocol), says Ian Ashby, European director of Lucent Technologies, which develops call centre

Technology for interaction by video is immature. There developed compression software, lack of bandwidth and lack of priority for voice calls on the Internet.

than helpful. But the video facility is coming.

ers, including Microsoft and erating electronic com Cisco, are investing heavily tions are expected in the next two or three years.

Call centres need to adapt the Internet, otherwise they risk becoming obsolete. The read of Internet usage is likely to generate a big increase in the volume of inquiries to both call centres that extra piece of informaand web sites, especially when the internet comes to many more people through digital television.

How this increase is to be handled is one of the biggest problems facing marketing the web site means that comdepartments. Already the web site substitutes for the

in the stock market investment business, for example, the number of hits on important web sites at times far exceeds the number of calls to call centres. However, expert consensus is that call centres can stay in business if they evolve appropriately and become integrated with web technology.

A web site is, of course, much cheaper to set up than a call centre and can provide much information on a self-service basis more effec-

tively. Federal Express reduced the number of calls to its call centre by around a third by allowing customers to check the status of their orders themselves through the Internet. But there are some things a well-managed call centre can do better than a web site, such as resolving difficult queries that require a considerable

amount of interaction. The problem is that the are still problems of under- interests of suppliers and customers do not coincide. "Call centre managers want to route calls to the web to save money, but users want At first, the resulting to talk to someone at a call uncertainty of transmission centre for a quick response, would perhaps make the says Jim Mitchell, chief techexperience more frustrating nology officer for software developer Davox.

Web-enabling the call cen-A number of industry lead- tre could be the key to genon a large scale, "Many in developing systems. Solu- transactions are not completed online because the person cannot get all the information they need from rapidly to the challenge of a web site to persuade them to go ahead," says Dave Thomson, marketing manager for systems designer Aspect Telecommunications. "If an agent could provide tion, the deal would be

> done. Web-enablement can take various forms, from the basic to the sophisticated. A simple "call me" button on

buildings in Belgium.

The Netherlands and the "Technology can help staff good locations for multilinavoid that lost for words feelgual call centres because citizens typically have more than one language. of what can be achieved is

Some companies are also setting up call centres in Finland to serve the Russian market because they prefer the investment climate there. Mr Bradshaw says the technology costs of equipping a call centre agent are fairly low, starting at £10,000

Ovum research group esti-mates that there are 685,000 call-centre seats in Europe Other companies with and predicts an increase to Europe-based multilingual around 900,000 next year. call centres include HS com-Key drivers for multilingual centres, says Mr Valen-

way, Microsoft and IBM and tine, are: courier companies DHL and Companies considering targeting customers from a Many multilingual call remote location for economic centres are based in Dublin. or social reasons, such as IBM's support centre is in not wanting to make people Scotland and US company work overnight

companies, has two linked takeover of US power company Pacificorp, which could lead to Scottish Power hanother Benelux countries are dling some of Pacificorp's

> Improvements in technology which make it easier to set up multilingual centres.

centres to a customer. Genesis gateway software can be used to connect diferent telecoms switches for example, those from Lacent, Nortel or Siemens -

the same building. Graham Technology has software that can provide a standard interface to comuter systems at linked sites including legacy (old) systems. A version of its scripting software can be used over the Net, interactive TV or through a mobile phone to display scripts in

calls.

Innovative products include Genesis "middleware", used by Sitel, which can link call centres at different sites over the public phone network or link its

at different sites or within



Sitel, which has five telesales centres in the UK, supplies multilingual telesales operations to more than 400 companies in 17 countries. Sitel recently awarded a large software contract to Reeloper of Solve/SE, the online card authorisation system, used at more than 125,000 points-of-sale

Filenet installed Apropos interactive voice recognition software at its European support centre at the end of November. Callers are asked to enter a code for their site and a job number and say whether they are having problems with a server computer. Calls are then routed to the appropriate support engineers, wherever they are based. Even without much of this information, the system can tell from the incoming local call-rate number which country the caller is from and therefore which lan-

guage is needed. Geotel provides software

that can switch a call in the public network - for example, when calls are being routed to the US out of hours - without the call even touching the call centre's automated call distributor. This is faster and means the local part of the call is

paid for by the customer. Mr Valentine believes there is a lot of scope for multilingual call centres to grow in number. But he says: "They could be overamount of forms-based transactions carried out over the web or by mobile without the involvement of a call

IBM sees multifunction centres handling queries by Internet, electronic mail. post, fax and phone as so important that it set up a division called Corepoint in November with a range of integrated software to help

customers set them up. Dr Rodney Craig, European general manager at Corepoint, says: "In this business area, the number maintain customer relation ships so that customers will still want to buy from you in



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mechanical cadeam market

that had suffered from years

financial weakness. CV, for

its range beyond cadcam,

and PTC was particularly

interested in its Optegra

As it turned out, says Mr

Walske, Optegra suffered

from what he sees as the

flaws common to all traditional engineering product data management (PDM)

says, "is that they only

worry about managing the

customers want. They want

to recuperate the cad data

takeover, CV had realised

Optegra's limitations, invest-

ing in a Minnesota-based

Technologies, whose prod-uct. Windchill, is seen by Mr

Walske as the next genera-

tion foundation for product

information management

and combine it with data

flows from other sources."

data management software.

# Rethinking the design

The prominent US cadcam company aims to push its products deeper into the industrial market,

writes Andrew Baxter

The challenge of redirecting \$4.4bn worldwide last year. a company at the same time It reached this position by as managing a successful coming up with a "paramet-business is "like changing ric" approach to computeran aircraft engine at 30,000 feet". So says Steven Walske, chairman and chief executive of Massachusetts-hased Parametric Technology Corporation, the world's biggest supplier of mechanical design automation software.

Many corporate executives in a similar position would describe their company as being at a crossroads. But Mr Walske prefers to call it a "major inflection point". Whatever the description. big changes are under way within PTC that mirror, and aim to influence, developments in the broader market for product and manufacturing information systems as a

According to Daratech, the US-based market researcher, PTC will have accounted for just over 20 per cent of a mechanical cadoum software

ric" approach to computer-aided design.

Developed by Sam Geisberg, PTC's Russian founder, this allows a product designer to change part of an on-screen model and leave the software to sort out all the consequential changes to

Mr Walske, a former venture capitalist, joined PTC in 1986. At that time there was no product and he was the fifth employee, "There were four Russians and me. They needed someone who could speak English, so they could hire a receptionist," he

By the early 1990s, Pro/Ener, PTC's flagship product family, had taken the mechanical cadcam market by storm - it is now in Release 20. Rivals struggled to catch up, and opinions in the industry vary on the extent, if any, of PTC's cur-

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in Europe to new heights."



### Update on computer-aided design and manufacturing (Cadcam)

Walske, a former venture capitalist, says rivals redefined their product marketing rather than the technol-

Either way, PTC is now generating annual revenues of \$1bn, but that is not due entirely to technology. Its "take-no-prisoners" approach to selling has discomfited rivals, although Mr Walske says his sales people are "certainly aggressive, but not obnoxious". He points out that Pro/Engineer is a high-end product aimed

all have invested in cadcam 1997, of Computervision already. That sometimes (CV), a bitter rival in the

throwing", he says. You've got to create an of ownership change and environment where people start to consider changing all its faults, had broadened [their cadcam supplier] when there is no compulsion for them to do so."

Unfortunately, however, the market is not entirely like that. People develop religions around the software they have chosen. That tends to get in the way".

Throughout its 14-year history, PTC has remained completely focussed on the mechanical cadcam market, ignoring, for example, the market for architecture, engineering and construction (AEC) design software. "It is one of the reasons why we have been so successful. says Mr Walske.

But that is changing because the nature of the marketplace is changing. People are as concerned with what to do with the [cad] data after they have been created, as in the process of creating them. We were slow to recognise that trend." PTC almed to achieve this

broader perspective, through web-based platform which the \$260m (£157m) takeover, uses Java and web services announced in November

Rank	Company	New	Renewals end sendce business	TOTAL	(%)
\$5 \\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	-	200	323.66	961,94	21.7
1	Parametric Technology	628.28	38429	891.43	20.3
2.		507.22	208.61	429.24	9.8
*	Daggard Systemes	220.63 153.03	138.84	302.83	8.9
2	Unigraphica Solutions SORC	158.96	143.17	300.15	6.8
	Autodesk	218.53	. 46.35	264.88	6.9
7	CoCreate Software	118.07	39.36	157.43	3.8
	Machinel-Schwender	40.78	95.16	135.94	3.7
9	(SCAMODENSON -	97.32	10.81	108.13 -	25
10	Metra Datavision	84.97.	7.50	92.46	21
<del>/2</del>	Ontercompany sales	227.59	174.69	402.18	9.25
	Other	784.79	377.03	1161.83	26.4
1, 11	Top Terr	2008.21	1224.08	3232.29	73.6
	- Nation Control of the Control of t	2793.01	1601:11	4394.12	190.0

cad data. That's not what heterogeneous basis - much as a web browser provides a that is hald on different servers. Early last year, PTC bought Windchill Technolo-Fortunately, before the gles, and Mr Walske believes the platform has "twice the commercial potential of Pro/ Engineer". Release 2.0 of company called Windchill Windchill was announced

> As he sees it, there is a big grey area between the world of enterprise resource planning, which can be viewed as transaction processing for when the product design has been completed, and the cad environment in which the

product is developed

"In between is this funny area where you have to make decisions about the status of the design as well as the implications of the transactions, and that's where we think there is an enormous opportunity.' Windchill, says Mr

Walske, has a unique technological position in this area, and PTC wants to become "the player that integrates this entirety of decision support". Turning this vision into commercial reelity will require the development of long-term relationships with industrial customers, another area where CV was strong, especially in the European aerospace and automotive indus-

So does Mr Walske agree with those industry observ-ers who see the leading cad suppliers evolving into broader players or even "one stop shops" for all production information system

"No. The problem with our stitors is that they are locked into given architectural solutions which would have to be abandoned ... to go to Windchill. A more likely scenario involves the ERP vendors coming into this space, as we move towards it, too. So it's a pretty reasonable assumption that our biggest competitor in a decade would be SAP [the German company which is the biggest player in the ERP marketl'

Not surprisingly, therefore, Mr Walske has forth- shares to plunge from right views on the need for ground \$35 in late spring to consolidation in the mechanical cadcam market. With underlying market growth of high degree of replacement business, vendors need strengths both in technology and distribution, he says.

"If you miss on one or the

other, you are basically in trouble. One could argue that the industry is already consolidated, down to ourselves and Catia [developed by Dassault Systèmes of France, marketed worldwide by IBMI. That's a bit of an over-statement, but it has two or three years or so." PTC arrogance, it is refresh-

been a two-horse race for If that sounds like typical ing to hear Mr Walske admit that the company can occasionally misinterpret market trends. Last summer, as part of a new pricing and packing strategy for Pro/Engineer, it announced the withdrawal of its PT/Products line of basically a facing page. software.



Walske has forthright views on he need for consolidation in

flagship product.

This had been aimed at an increasingly important middle market for mechanical design software. But customers did not want a limited version of Pro/Engineer which offered no route to its more feature-rich bigger brother. It was a "marketing gaffe", says Mr Walske; instead, the product range and pricing structure needs to be a continuum, which permits customers to grow as their demands on the software increase. In fact, the summer

months were a pretty torrid time at PTC. The strategic changes and weakness in Asian markets caused the as low as \$8% in early

ing at around \$15, and in its first-quarter earnings report last month. Mr Walske said he continued to be cautious about the outlook for the first half of fiscal 1999, but was more optimistic about the second half. He stressed that all the recent initiatives are "long-term positives for

Meanwhile, how much fur ther can companies like PTC improve the design software itself? If all physical reality is 100 per cent. Pro/Engineer can model 98-99 per cent of it already, says Mr Walske. So the ability to add value at that level is past. On the other hand, he predicts "another huge wave" in cad-cam, which he defines broadly as "design re-use".

☐ East European report: sec

### WEB TECHNOLOGIES

## Vendors must move quickly

From previous page:

plex, high-value financial transactions and matters that are not easily solved by studying the site can be handled effectively and without

At present, most companies answer most queries sent from the Internet individually by telephone. This may be a good idea in many cases, but it is labour-intensive and costly. As the volume rises, it will become less practicable.

The request may be sent directly from the web site to the call centre's automatic call distributor and from to the appropriate agent to frame a text response. Well-trained agents can quickly compose adequate replies to many routine queries, using suitable scripting and helpdesk

This form of interaction will continue to be important for as long as people are reluctant to place orders or enter into contracts on the Internet. At the high end of the scale of functionality. voice over IP - and later. video over IP - will eventually create a seamless inter-

face between the web site and the call centre.

method of response is best for the particular type of query. Dell, the direct sales personal computer manufacinto call centre and web site

inquiries Those who visit the web site tend to be more technologically able, whether they are buying or need technical support, so we have different teams to deal with them." says Barry Collins, Dell's UK Internet business manager. "We do not want our most experienced people working on elementary queries.

The company tries to direct simpler queries to the web site, which can deal with most of them more cheaply, while directing those to which an agent can "add value" to the call centre. The number of agents in its Dublin call centre has trebled to 650 in the past few years and would have increased even more if the company had not managed to direct much traffic to the web site.

It remains uncertain how customers will in future choose to interact with the organisations from which they buy. What is clear is that vendors will have to move fast to be able to cope with all the possibilities.



No longer ide issue

Mual building

RECYCLING EQUIPMENT by Mark Vernon

# No longer a side issue

European moves to force the IT industry to take the environment more seriously are prompting some hard thinking

computing" has not always been taken seriously by the FT industry, but pressures are building up rapidly for a change in attitude. The design, manufacture and use of computers with more than a cursory thought to their impact upon the environment is no longer just a side

As with other environmental concerns, green computin recent years to take a central position in the strategic considerations of governments and the IT industry.

This year, a European directive will push green computing to the top of the agenda. Thus the hard realities of international legislation will force more companies to join the ranks of the environmentally conscious. The detrimental effects of

computers upon the environment have made headlines ever since people began connecting chips of silicon, doped with some of nature's most unpleasant compounds, and passing ever increasing amounts of electricity through them. The National Semiconduc-

tor plant in Greenock, Scotland was one to attract damaging publicity last year. A group of workers protested that solvents known as glycol ethers, which were until recently widely used in chip manufacture, were connected to a high incidence of cancer.

Green computing has generated more favourable coverage for the industry, too. There have been predictions about home computing leading to fewer commuters on the road (though mobile PCs small burden." have, in fact, tended to turn cars - not living rooms into mobile offices). Studies show that long-held hopes of arsenic, as a result. The a "paperless office" have problem is that there are no

ments. But in Europe at least, 1999 could prove to be a watershed. The European Commission is expected to ratify the Directive on Waste from Electrical and Electronic Equipment in the first quarter. This will require

result in more paper docu-

The idea of "green islation that will oblige manufacturers to take responsibility for collecting old computers for recycling. Failure to meet certain targets, from 70 per cent recycling by weight for most IT equipment to more than 90 per cent by weight for equipment which contains a cathode ray tube, will result in

> The disposal of old CRTs is one of the biggest environmental problems in the FF sector. "In the UK, more than 4m CRTs, as found in monitors, enter the waste stream every year," says

although this can be aided greatly by good design. "One of the main issues is to minplastic used," says Mr Wood. "For example, even a sticker on the side of a casing introduces hurdles, since it has to be peeled off or the hard plastic is unrecyclable. He also points out that many plastics have flame

resistant coatings which give off extremely noxious gases when recycled. Finding alternatives will require a considerable research effort. Eliminating lead solder from computers is while the environmental benefits are obvious, the cost and reliability of alternatives is highly problematic.



Joy Boyce at ICL, the information systems company, says EC

Laurie Wood, environmental manager for Decom, a British recycling company, and chairman of the Industry Council for Electrical and Electronic Recycling European forum. "Typically, the cost of recycling a monitor is £7 (\$4) and that excludes any logistics. So the buck being passed to IT vendors is no Many CRTs and un in

landfills. They leak chemicals, including eadmium and been dashed as more elec- real alternatives for dispostronic reports ultimately ing of CRTs to date. Some are ground down and recycled in concrete. But there are concerns then about the high levels of dust which such concrete produces. The lead content of just one CRT of water, according to EU safety standards.

Recycling computer casing individual states to pass leg- is no trivial matter either,

However, relatively trivial alterations to the design of computers can help. For example, just reducing the number of screws used in assembly and making them all of the same type saves much recycling time. Manufacturers are considering a number of strategies to offset the expense of recycling. Some are encouraging corporate customers to lease PCs rather than buy them outright, so that vendors can keep control of the complete life-cycle of the equipment.

But the prospect of EU enforcement is giving producers course for concern. We will try not to pass the expense onto consumers." says Joy Boyce, head of corporate environmental affairs at ICL, the UK computer subsidiary of Japan's Fujitsu. "We will have to find alternative ways of absorbing these costs." However, Ma Boyce and



green computing

imise the different types of others have been lobbying the European Commission with warnings that its direc tive could lead to a contraction in the electronics industry via an indirect expansion of the recycling industry. funded by electronics producers.

"It could, in the extreme see high paid, high skilled jobs in the electronics industry being exchanged for low paid, low skill jobs in recycling," says Ms Boyce, noting that the packaging directive which recently came into effect was having widespread ramifications.

.The economics of computer recycling are some what different from other white goods in that PCs do have a value at the end of their lives; some parts can be re-used not just recycled: so, taking computers back in is not all bad news for pro-

But the IT industry would be much happier if everyone played a role, including responsible consumers.

Recycling aside, users can in fact reduce the environmental impact of PCs relatively easily, and save money at the same time. Mike Skora at the Univer-

ity of Michigan has assembled a range of compelling green statistics. A conventional laser printer can use as much as 200 watts while printing, and at least 50 watts just idling. This compares with a CPU (Central Processing Unit) running between 40 and 150 watts, and a typical 14-inch monitor consuming up to 100 watts of power.

The annual cost of a PC system is therefore around \$200, which multiplied by the total number of PCs on the University of Michigan campus as one medium-sized organisation, amounts to millions of dollars and well over 10 per cent of the university's total electricity hill. Mr Skora's green advice it off when not in use!

He also praises the American Environmental Protection Agency's Energy Star Program, with the logo that now appears on many PCs. Users just need to ensure that their PCs' energy saving devices in the display window of the settings menu are actually turned on.

from Hardware Hell

Finding a way back

NEW USES FOR OLD SYSTEMS by Michael Dempsey

Computers and software can rapidly become obsolete, but IT equipment can often have a useful second life In an industry that created commercial market. "If a

Silicon Valley, not many people have heard of Hardware Hell or Software Cemetery. But a combination of imminent environmental legislation in Europe and economic pressures on manufacturing processes mean these locations point to the future for the IT industry.

Hardware Hell and Software Cemetery are dumping grounds for surplus equipment at the central London offices of Logica, a big UK software and systems bouse. Any computer that is unable to support the latest software in use at the company is packaged up and consigned to three rooms in the basement of the company headquarters. The equipment is labelled and left on a shelf until it can be put to

passed on to another user for educational purposes. Software Cemetery allows any old programs to be used in the same way. But the key condition attached to all of these rejuvenated products is that Logica has absolutely no liability for any

faults or problems that may This reservation is common to all IT companies which recycle equipment for charitable purposes; it is simply not practical for the original owner to carry on supporting old equipment that may not be effective in a commercial anvironment but can still offer a lot to hard-pressed organisations with tight budgets.

IBM of the US, around 1,000 PCs are handed over to two companies specialising in recycling IT equipment for charitable purposes every year. If this figure sounds modest for an operation of IBM's size, it is worth remembering that very old personal computers are of no use to anyone. And in the essentially adds up to: "Turn | current climate of rapid technical change, Steve Bushnell, IBM's UK Environmental Programs Manager. observes that "not many charities are looking for a PC that's anything less than

> There is a narrow margin between these PCs for charities and the equipment that can still be resold on the

personal computer is based on a Pentium chip, it can still be used by us or sold on through the broker markets."

For IBM, environmental programmes mean much more than just disposing of PCs in a socially-conscious manner. Large computers in the mainframe sector, such as the AS-400 and IBM/390 series, are returned to the manufacturer to be recycled into leading edge systems.

The pace of change in hardware design means that while the external appearance and many of the core components of a large computer may remain the same key internal parts change totally within two years. Typically, we can recover

an awful lot of value from use outside Logica. Any these machines." says Mr employee can suggest it be Bushnell. He explains that circuit boards on large systems like the IBM/390 do not go out of date as soon as those on a PC. "You can take a two year-old AS-400 and do a software-based upgrade and put it back on the marenvironmental sense."

> IBM chooses to buy some of these systems back from its customers and refurbish them at their original manufacturing sites in Germany

### World standard

ISO 14001 is the worldwide environmental management standard to which IBM is working. This is meant to define the manufacturing At the UK operations of process of equipment in a way that means it can be recycled easily. Selecting plastics that can

be re-used is a typical ISO 14001 requirement. Mr Bushnell stresses that these new environmentally-conscious standards have a solid economic basis. "Since the advent of this ISO-standard in March 1996, 26 of our worldwide manufacturing sites have been registered as complying to its standards." The cathode ray tube behind any PC screen contains hazardous elements.

primarily lead and cadmium. The disposal of old PC monitors on landfill sites has led to these elements being released into the atmo-



Junk computers in the US: Marty Davey, manager for Rhode Island's departm int, surrounded by a pile of old IT equipment. The

Union legislation will impose strict rules on the way in disposed of IBM's recycling policy is thus a step ahead. One company that benefits

from the attitude of IBM is Charity Logistics, a UK government-backed group that takes redundant PCs and assumes responsibility for any legal liabilities resulting from use of the equipment. Employing young trainees at sites across the UK, Charity Logistics takes donated PCs and wipes the hard disk clean of any data. George Cook, Charity

Logistics' chief executive, is a former commodity trader in the City of London. "We have up to 4,000 PCs in stock at the moment. And we have forward contracts with IBM that could see this rise to 100,000 PCs."

computer "bomb" may be a Montego Bay. nightmare for most IT users. Before this intervention but for Charity Logistics it could mean a windfall. Rather than risk claims for liability, hardware manufacturers will release equipment to its 100 staff who can turn the machines around for charitable and educational concerns. And Mr Cook's staff are not just sphere. As of 2004, European shifting new equipment.

"We are working on a software technique that will PCs with 386 chips and link them to one Pentium PC working as a central server."

He sees this as an economical way for schools to obtain high-end performance from old machines. "You can put a network running mod-".000,0E2

Back in the basement at Logica in London, the staff have gone a long way to find a school which could use old computers. Ruth Bailey, who works in Logica's Energy and Utilities Division, led a team of company volunteers who rebuilt and equipped 10 old 386 PCs and then raised funds inside the company for four staff to fly to Jamaica The so-called millennium install the PCs at a school in

> from Hardware Hell, the families of pupils able to benefit from Logica's Project Jamaica had to pay out the equivalent of an average week's local salary every term for computer training At Logica, the process of green computing can mean a journey from Bardware Hell to PC Paradise.

HUNGARY: CADCAM'S ROLE by Kester Eddy

# Virtual building blocks for a thrusting IT sector

In the post-Cold War era, big multinational groups have been pushing eagerly into the east European market as trade restrictions have been swept away. Hungary, in particular, is achieving notable successes

building Hungary's first nuclear power bloc discovered that Soviet pipes differed from Magyar standards, they needed a solution - and quickly. So physicist Gabor Bojar, then 33, worked in an attic to provide the answer.

With his 32k byte memory calculator - then a valued possession in Hungary - Mr Bojar beat off competition from state-owned companies to win the \$30,000 ortze. He used this to found his own company, Graphisoft.

Through the 1980s, Graphisoft employed the skills of Hungarian mathematicians to creets software needed for the domestic information technology market. which was hard at work to circumvent foreign exchange and restrictions by COCOM, the Nato offshoot which blocked technology transfers to the Soviet bloc.

But Graphisoft soon began working to satisfy more than just the local market. Today, its three-dimensional, object-oriented

architectural design software, ArchiCAD, is available in 25 languages and is used by almost 60,000 design professionals in more than 80 countries, Mr Bojar

Turnover in 1998 is estimated at DM44m (\$26m), almost 20 per cent up on the previous year, around two-thirds of the total stems from Germany. A share issue on Frankfurt's technology-oriented Neuer Markt last June, raised DM92m and valued the company at about DM420m, though the share price has since fallen.

ArchiCAD is custom-made for architecture companies and the building industry. It is especially strong in the smaller and medium-sized section of the market. Available on Windows 95/ NT and Macintosh operating systems, it uses what Mr Bojar alls "a revolutionary ("Virtual Building") concept" for 3-D modelling of buildings. This enables architects to control and evaluate the massive amounts of information involved in designing

buildings, including the generation of drawings, renderings, bills of materials, even virtual reality scenes from the very seme project

As modifications are implemented, information remains integrated, up-to-date and easy to manage. And because the Virtual Building is integrated, changes. made in one view are updated in all views, saving the architects' time and reducing the risk of errors along the way. Using the Virtual Building

system, construction documents and files can be derived directly from a 3-D building model with no additional software and virtually no repetitive steps. ArchiCAD also empowers a broad range of other Virtual Building to plan, design, market, sell, manage and remodel buildings, it can even assist bankers to help project finance

Graphisoft also claims credit for numerous software innovations which are today considered

design, Including object-based 3-D modelling, building simulation, document derivation from the Virtual Building, enhanced visualisation and collaborative

architecture, which enables teams of architects to work on the same project via the internet. In developing its own business, Graphisoft has also played a significant role in the development

of Hungary's IT industry, Last September, Mr Bojar opened the first stage of a \$30m, seven-hectare IT park on the site of a former gasworks in Budapest Created partly with the small entrepreneur in mind, the park - in which Mr Bojar is the moving force - will offer preferential rents to

start-up IT companies. This will encourage Hungarian computer specialists to develop in their homeland, rather than emigrate with their talents, says Mr Bojar. Microsoft, with 50 local employees, has already moved in next to Graphisoft's own

But while Graphisoft may be the flagship among home-grown Hungarian IT companies, it forms only a small part of an industry which, ironically, benefited in some which forced innovation, says Gabor Dombi, general secretary of the Society of IT Organisations in Hungary. The effort is now paying

Mr Dombi estimates that there

are around 500 small companies (employing up to 20 people), plus eral thousand micro-firms serving 100 leading IT companies. Amongst the larger domestic companies, systems integrator Synergon has plans to go public.

### Ericsson swiftly set up regional base

Western computer companies, quick to move into Hungary for market share after 1990 and the collapse of the Iron Curtain, soon noted the local penchant for information technology. One of the first to exploit this inclination was Ericsson. After winning a switching tender for the then state-owned telecoms company Matay in 1990. the Swedish group set up a two-man joint venture with

Muszertechnika, a local company Success with local trade and installation work soon spawned a software development operation,

Budapest as its regional base for telecommunication projects, serving countries as far apart as Austria to Uzbekistan. "If we have any problem in Turkey or Sofia. it's dealt with here. We now have a full innovation chain from pure research to design and production," says chief executive Istvan Fodor.

in 1991 to \$145m, and the company employs more than 600 people in Hungary, It also works with about 150 students at Hungarian universities, who can book time on computers in the company's offices.

Turnover has jumped from \$5m

Other multinationals, including Nokia of Finland and Sweden's Scala, have followed Ericsson to set up software development centres in Hungary, and Motorola of the US is also planning a

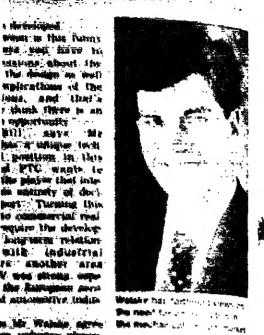
The development of Hungary's hardware industry has matched, if not outstripped, the successes of R&D and software. Nokia, Philips of the Netherlands and IBM of the US have all set up plants in the past few years. IBM Storage. based south-west of Budapest, was founded in 1995 to

manufacture hard drives. The plant has mushroomed to employ over 5,000 people today and was the largest single exporter in Hungary lest year, selling 4m hard disk drives worth \$1,4bn - 5 per cent of Hungary's entire exports. Production this year is expected to reach 6m drives.

However, an estimate of the overall economic importance of the IT inclustry in Hungary is hard to reach, says Mr Dombi. This is partly due to the difficulty in defining IT. Nevertheless, in an economy with a gross domestic product of \$47bn, it is clear from the largest companies alone that IT now plays a significant role. Moreover, the industry is special

in another respect, says Mildos Boda, head of research and development at Ericsson. Unlike other sectors, where low wage costs play a significant role in attracting foreign investors, it is the wealth of talent and high standards in mathematics and engineering that attracts the big high-tech concerns to Hungary. "Wages have nothing to do with it. We are working on the next generation information systems. You need competence for that," says Mr

"...because even with S.P. it's the people not the disk that make the difference... Putting SAP to work with Team 121 iii Team 121



WEDNEMDAY FEBRUARY

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# Investors click a path to new online markets

Using the Internet to trade in securities is becoming increasingly popular in the US, but the rest of the world still has quite a way to catch up, writes Paul Taylor

Another electronic trading milestone was passed in December when the \$255bn market capitalisation of Charles Schwab, the biggest online broker, passed that of Merrill Lynch, the traditional US retail brokerage firm which vies with Morgan Stanley Dean Witter for the title of the world's largest

securities group.

The event signalled the astonishing success of Schwab and other leading online brokerage firms like Toronto Dominion, the Canadian banking group, and E\*Trade, the most popular online-only brokerage. Their low-cost, Internet-based, execution-only share dealing services have helped them grab up to 50 per cent of retail share trading in the US within the last four

In 1996, the number of online trading accounts totalled just 1.6m, according to Forrester Research, the US-based IT consultancy. Some estimates suggest that this figure could soar to 20m hy the end of next year with 3.5m new online accounts expected to be opened in the

US this year alone. While online trading has yet to take off in Europe or elsewhere outside North America, the success of pioneers such as E\*Trade which launched its first online service in 1992 using America Online and Compu-



### Focus on IT in finance: electronic broking

which has made perhaps the smoothest transition from traditional discount brokerage to online trading, has been dramatic.

"This is possibly the most exciting area of the Internet we have seen yet," says Roy the northern European operations of Broket, a leading e-commerce software

In the US, online brokerages, some owned by mainstream Wall Street firms, have proliferated, leading to a battle for market share, flerce competition and a price war that has driven prices below \$10 per trade in the case of Ameritrade, another traditional discount Serve - and Charles Schwab, brokerage which has jumped

aboard the online band-

In spite of this, the low operating costs and high volumes have caught the attention of most traditional securities firms, Among Wall Street's biggest groups, Mer-rill Lynch, Prudential Securities and PaineWebber have all been testing online trading and plan to launch services early this year. Meanwhile, those tradi-

tional brokerages that have already set up online operations are adding more services to their web sites such as research, real-time share price quotes and portfolio management in an effort to capture the "middle ground" - retail investors who want more than just the lowest price execution-only service, but do not need the bells and whistles of a traditional high street broker.

What they all have in common is a desire to emulate the financial performance of the Internet trading pioneers, most of which have recently reported sharply higher quarterly results. For example, Schwab, which had 2.2m active online accounts at the end of December and accounts for about a third of all online trades, posted 2 69 per cent increase in its fourth quarter net income. Meanwhile, E\*Trade's revenues rose by 63 per cent in the quarter to December 31, reflecting the growth in cus-

tomer trading volume and

The advances in both earnings and revenues at the leading US online brokerages came as US-based online brokers reported more than a 30 per cent increase in fourth quarter trading by customers through their web sites. Schwab said it opened almost 400,000 new accounts in the quarter and that customers made an average of

"Internet traders are trad-ing so much," says Steve Eisman, an analyst for CIBC Oppenheimer, commenting on Schwab's results. Indeed, North American studies suggest that online investors buy and sell up to four times more frequently than those using telephone brokers. It is these high trading vol-

93,000 online trades a day.

umes – and the highly desirable demographics of online traders - which have made up for the lower fees, typically \$30 or less, charged by the Internet brokers.

Nevertheless, most online brokers already acknowledge that they will need to enhance their service offerings if they are to prosper in volatile markets. Aside from adding extras such as research reports and premium-priced services to their sites, they are also extending their product portfolios and geographic reach.

For example, Charles Schwab has started selling new shares direct to its online customers and last month, E\*trade announced that it planned to take a 28 per cent stake in an online get into the primary as well Schwab and Toronto Domin-investment bank called as the secondary market," ion also have Canadian



says Brokat's Mr Smith.

trading network,

ford Robinson, two well-known US west-coast

agreement, E\*Trade will have an option to increase its stake in E\*Offering, which expects to begin underwriting moderate-sized public offerings for sale to E\*Trade subscribers, to 51 per cent. As much as 50 per cent of each deal will be distributed to online retail investors and E\*Trade customers will generally have first access to these shares, the company said.

These moves will further narrow the gap between professional traders and institutional investors, and their retail counterparts. "This will allow retail investors to

operations while DLJdirect Like Wit Capital, another and E\*Trade have plans to Internet investment bank. offer online trading in E\*Offering plans to undercut

traditional investment acknowledging the huge potential, both traditional banks, charging companies less than the 7 per cent of brokers and new entrants gross funds typically generated by investment banks have moved more caufor IPOs. Meanwhile. tiously. "We are very much E\*Trade is also buying a 25 lagging behind in Europe," per cent stake with Goldman says Adrian Man, in charge Sachs in Archipelago, an offof Brokat's brokerage exchange electronic stock account business. Brokat believes this reflects the greater penetration of the The leading online brokers are also preparing ambitious Internet in North America and the relatively large numgeographic expansion. For example, E\*Trade has signed ber of retail investors in the icensing agreements to US. "But there must be bring online trading to 32 latent demand for a high volcountries and already has ume, low cost system," says ioint ventures up and run-Mr Smith.

In Europe, Brokat has been working with a number ating in the UK this year.

the UK - on electronic trading systems. However, all the big brokers in the UK are examining online deal-

So far, only two stockbrokers run working real-time dealing systems on the net. Stocktrade, a division of Brewin Dolphin Bell Lawrie; and Charles Schwab, which took over Sharelink in the UK, both started their services in mid-Decamber. But Barclays Stockbrokers, the joint largest retail broker, and several other brokers. including E\*Trade's partners plan real-time dealing early

But for all its attractions, European retail investors are likely to discover that online trading is not without problems. For example, Schwab's customers suffered long delays and a 15-minute shutdown in-trading last month after its system went down following attempts to add capacity to it the previ-

At the same time, the Internet is notorious for slowing down markedly during peak periods. Most online brokerage firms are still smarting from the deba-cle in October, 1997 when, in the wake of the market crash, many retail investors got busy signals when they tried to trade online. Since then, most online brokers have been desperately adding capacity and backup systems to try and prevent a recurrence of the damaging

It seems likely, however, that even with such difficulties, most retail investors will eventually be forced to move to online broking or pay more for human contact. eanwhile, as with so many other business sectors, there seems little doubt that the Internet is on the verge of revolutionising retail share trading around the globs.

Gemini warns: "Real savings

and profit will be made by

"But for those who get

here late, it will cost them

cost them more to get on to

the Internet later to regain

Europe will not only tap

their local markets but be

comes under one European-

wide operation, as US bro-

The long-term winners in

EUROPEAN ONLINE TRADING by James Mackintosh

# Long-term future looks bright

For now, online share-dealing makes up only a fraction of the retail stockbroking market, but it is growing fast

chief executive of US broker- ested in share-dealing, and age firm Ameritrade, com- users of the Internet, who pares the internet to the are wealthier than average.

value is \$700. It is better than mining gold," he says. Ameritrade believes there

is plenty more growth in the US market for online share dealing. But it is already looking to Europe, where Mr Ricketts expects Internet broking to take off in a big way in the next year or two. Continental Europe and

the UK are far behind the US because there are fewer Internet users and fewer But both the number of

people owning shares and the number of internet users will grow rapidly, according to several US brokers in the process of setting up European operations.

And there is a bappy coin-

Joe Ricketts, chairman and who are likely to be inter-

On top of that, even a "It costs a couple of hun-small number of online cusprofits significantly because Internet users trade up to three times as often.

Online share dealing makes up only a tiny part of the retail stockbroking market at present, but it is growing rapidly.
In Sweden, where the long

nights have boosted Internet take-up and there is a culture of owning equities, the big traditional brokers moved on to the Internet two years ago and there are now 14 operating through that

dictable effects - stiff competition, downward pressure on dealing costs and, recently, the growth of niche players providing information and specialist dealing in initial public offerings, deriv-

atives and mutual funds. Alan Jenkins, senior man-ager in financial markets at consultants Cap Gemini, believes this model will be repeated across the contikers, such as Charles Schwab and E\*Trade, that busy setting up in

The plethora of medium sized brokers that exist in the UK will come under increasing pressure from new technology.

"We expect brokers to either make significant investment in automation for straight-through processing, to provide service that does not require human intervention or, without that investment, to become niche players outsourcing their

Mr Ricketts at Ameritrade is not sure this will lead to the success of US brokers in Europe, however. He says:

"They are going to be more inclined to invest in equities but they are going to stick with their existing institutions. I think it is going to be hard for startups [in Europe] to attract a

### Offshoots

Outside the UK, most Internet development has been by the execution-only offshoots of large brokers and bank groups, with German online brokers, for example, including parts of Deutsche Bank, HypoVereins Bank, Commerzbank

and Dresdner Bank. The success of US-owned start-ups would make a rapid growth in cross-border dealing more likely than if the market remained under control of existing

The recent link-up of the London and Frankfurt stock exchanges, and the potential for one Europe-wide exchange, could lead to

increasing competition country-specific issues will across borders by brokers. continue to dominate for Already two specialist startups, including Woqats in Belgium, are planning Europe-wide electronic deal-

is three to five years away each country based on local from being mass market, as issues." come regulatory difficulties and the easy settlement of trades across borders. Links between national settlement systems are being

created. Crest, the British automated settlement syshas already agreed to work with the Swiss. "It levels the playing field because it potentially means

you can go to a broker in any country and they can settle through their domestic system," says Mr Jenkins. "In future, you might find easier to dial a number

that puts you through to

Amro [in the Nether-ABN in the UKL" However, there is no clear vision for the future. Lars on, an internet consul-

tant in Stockholm, says

years to come. "Europe has so many languages and cul-tural differences," he says. "You have to build up differing. But Mr Jenkins thinks it "ent customer relations in

ning in Australia and Can-

ada and plans to start oper-

hard to agree a common

The first online dealing began in Britain just a year ago, when Charles Schwab Europe, which only covers the UK at present, and several smaller brokers began taking orders through a secure e-mail system.

This has now been upgraded by two brokers, Schwab and Stocktrade, the execution-only (no advice) arm of regional broker Brewin Dolphin Bell Lawrie, to provide fully automated links between the customer and market-maker.

Britain's largest broker, okers, is in the final stages of testing system early this year. A online early is crucial. Cap handful of others have also announced their intention to

European brokerages using the Internet is bright. An aging population - forced to dearly in lost business and rely less and less on state support in retirement – will have a growing interest in their lost clients." personal investment, helping stockbrokers. And the single currency should also boost eliminating currency risk view because electronic from cross-border trading within the euro-sone.

### Racing ahead

brokers are rushing German

companies are

France, the use of the Internet has been held back by the prevalence of older-established Minitel terminals. But, even there, stockbro-The rush is inspired partly

by the one point analysts

more worried about short-term loss of customers if they fail to develop online trading. All the large UK mostly already online. In kers are now moving quickly

kers Charles Schwab (see case study on the facing page) and E'Trade are hoping, a series of differently branded operations in each country or a loose alliance of national brokers offering

cross-border dealing. Ameritrade is betting on kers, including Bank 24, part of Deutsche Bank. But Mr Ricketts admits he does not know how the market will

pan out "We don't know who the big global brokers are yet," three to five years. The can agree on - getting

Agher Quality and Effig

# Before we put our finest printer together, we considered how it should come apart.

Atta Consistent in a passion is not the www.kyocera.com.

# Because it's all part of the earth.

it had never been done before. Take an ordinary office machine and turn it into a model of ecological manufacturing. Focus on eliminating waste and saving resources. The result is earthfriendly and economical. Kyocera's Ecosys printer.

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including Australian Conservation Foundation seal (Australia); Eco Logo (Canada); Blue Angel (Germany); Eco Mark (apan); Energy Star (United States and Japan); Energy 2000 (Switzerland)

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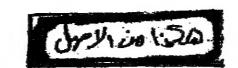
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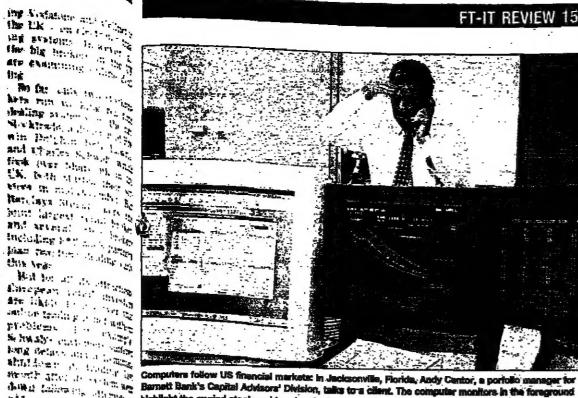
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CASE STUDY FIDELITY INVESTMENTS

### Personalised program andres cape to and large systems to an and present proves a winner It resemble short house. that even outer same differ

The online service offered by Fidelity investments has become an integral part of the Boston money manager's strategy

> Fidelity investments has been taken aback by the strength of response to its online product for 401(k) US pension

Of 5m participants, about 80,000 access the online service each day. That is more than make telephone contact with their programmes on a daily basis, and three to ago.

- . 1. 1. 1. 1. 1. TO " ot faster than many predicted," says Bob Reynolds, president of All Fidelity's Institutional Retirement group. The bank offers 401(k)

retirement plans to compa over the US. Those progrations in turn offer the product to their own employees.

At first, Fidelity Investments ······· feared that allowing all these questions to stuffle around sales and the Frank accounts online might make the funds unstable. The beth what is in that is surprise is that, while Part 17 participants have become extremely active, they spend ing a server is at artist the bulk of their online time gathering account information and educating themselves on

BATTORY OF AN A COME their options. "What we see is that, while people do move funds from bonds to stocks or emerging markets to the US, the number of transactions that of President and Saft internet users make is comparable to customers who only access their plans off-line," says Mr Reynolds.

Planning and education have become mainstays of Fidelity's pension fund site. One of the most popular parts

personalised program that allows users to come up with the best retirement plan. By putting information on age, earnings, financial needs and risk tolerance into the computer, Fidelity allows customers to get a better idea of where they should be investing their money, and

of the service is a

have at retirement. "The Net is helping our customers educat themselves, and that is great for Fidelity because an educated customer is long-term oriented, and doesn't panic," says Mr Reynolds.

how much they can expect to

### Local seminars for clients

Looking ahead, Fidelity plans to leverage its online service even more by personalising information on users. Under this programme, which the company will implement this eer, customers will be shown only information that is elevent to them.

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· Online in the Internet: electronic business

Logistics management centre with logistics controlling

Depending on their postal code, for instance, clients might receive information on 401(k) seminars in their area. "If you are 30 years old, you don't need information about how to prepare your accounts

for immediate retirement," says Mr Reynolds. "Online services will let us focus more on the person, and less on the corporation sponsoring the pension account."

it is not clear when, or whether, the internet will yield cost savings for the company. While each transaction is cheaper online than by hone, says Mr Reynolds, building a presence is tremendously expensive.

Fidelity is spending about \$500m annually on building a web presence, about \$35m a year just on retirement

Regardless of cost, Fidelity's online service has become an integral part of its strategy. The company is using its web presence as a selling point to clients.

"We were among the first to provide account balances, the ability to make transactions and personal planning tools over the web," says Mr push to be leader."

Once personalisation kicks in, the company may also manage to use the web for cross-selling purposes Knowing details about customers, from their age to their investment preferences. is valuable information and can help Fidelity target clients who are most likely to be interested in specific

"The Internet is an important part of our corporate strategy," says Mr Reynolds. "It is a priority for

Victoria Griffith

CASE STUDY

# Web site attracts up to 20m hits a day

Online customers often have less need of personal contact and can obtain all they need via the Web

Online trading by private Investors has surged to new heights in recent months, with one brokerage firm playing a particularly prominent role.

Last autumo, the internet became the main communication method for nts of Charles Schw with the number of online transactions growing to 54 per cent of the total. Charles chwab, the largest US discount brokerage, last month reported record fourth-quarter net profits of \$106m, helped by a surge in online trading and asset management fees. The company opened 1.4m new accounts in the past year and now has 5.6m customer accounts.

The number of online accounts with the firm has virtually doubled in each of the two years since it enhanced its online access from a dial-up link to its own computers, using special software, to a simpler web site approach. internet access

it now has well over 2m online accounts. These account for more than a third of the \$491bn of assets the This growth has made

Charles Schwab by far the biggest force in online trading even though its transaction charges are among the highest. In addition, for from using this response to cut traditional personal services, has opened 55 new offices in the past two years, taking its total to 289, It believes that the continued emphasis on traditional services is helping

to boost the acceptance of site, but there are still times online trading among when people want personal contact, for example to talk

through a new type of

nvestment decision.

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account or to help with an

There is no charge for

"We find that our online

channels - the Internet, our

offices, talaphone or personal

contact with our brokers and

The difference is that the

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more than 80 sources is

es on, for example, how

the web site. It covers

customers still use all

investors. "More than 50 firms now offer online trading in the US," says director Grag Gable. "Some operate only over the internet and are lighting a price war, with trade fees as low as \$7.

"We charge \$29.95 for up to 1,000 shares, yet we have become the biggest online

"Some people just want 'bare-bones trading', but most of our clients want a combination of automated and personal services. People are prepared to pay for services

Online investment trading was always going to have a good chance of success because of the affluence and nature of the users. Some 70 per cent of Charles Schwab's US customers have PCs, compared with a national everage of around 50 per cent, and 60 per cent have

Even so, Mr Gable puts the online trading success down partly to the fact that the firm is well-established and known among private investors in the US and partly to its belief that those investors want different access methods, "Brand and trust are very important," he

"More than half our customers have visited a branch office. People like to see who they are giving their

"We have created a richness in the information and tools available in our wab

☐ IT in finance - focus

□ Update on the millennium

enterprises - selecting IT

☐ Second theme: Telecom

convergence in information

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ogies.

□ Plus regular features.

[] IT in finance - focus on

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□ Electronic business

☐ Year 2000 update.

what's at stake?

☐ Electronic business

☐ Main theme: Windows

Second theme: IT in man-

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Update on the millennium

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□ Electronic business.

retail banking.

☐ Year 2000 update.

□ Electronic business

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in a broker's research centre." Mr Gable says. Many clients without PCs

find used only by specialists

can still use the service. Computers with links to the Internet are being set up in the lobbies of Charles Schwab

Charles Schwab is investing heavily in getting even more customers online. It has consulted customers widely on the design of its web pages and thèse have been much improved in the past vear. Mr Gable points out that so much information is available that it has to be packaged properly to be of

In addition, the firm has run highly popular evening seminars to show customers the service and how to make the most of it. Even though Charles Schwab is opening more offices, the internet service is saving it money while introducing the brokerage to potential clients outside the US, where it is not well known.

"We sometimes get 20m hits a day from across the world, and we have worked out that to handle the number of interactions in the traditional way, we would need 15 more call centres. whereas we currently have four," says Mr Gable.

Traditionally, someone following a stock might hear a who finds a report and reads t over the phone. increasingly, that customer is going online to find the nformation and analyse it at isure and in private.

"In addition, we can add new services easily, and new anguages. We have opened a Hong Kong office and now provide services in Mandarin and Cantonesa on the Web."

Charles Schwab bought the Sharalink service in Britain in 1995, but says UK investors are some years behind their US counterparts in actively managing their investments. It is now researching internet use in other countries before planning local promotions of There are tools on the site

FT-IT REVIEW THEMES IN 1999

# Focus on IT strategies for digital business

The Internet and e-commerce will be prominent among the themes featured in the FT Review of Information Technology this year as companies and their customers move increasingly online

ext month's FT-IT . Second theme: Java Review will high-light changes in the Plus regular features, IT industry. This issue, on Wednesday, March 3, will also examine the impact of IT on the media world and look at the IT systems used by the new European Central Bank.

Throughout 1999, the review ☐ Main theme: Mid-sized will carry regular features

☐ IT in finance, with a special focus each month. Riectronic business. The millennium date

☐ IT news update.

Rach issue will include a main theme, with a cover story on a topic of key importance to IT users, together with views from eading suppliers in the IT industry, plus our regular IT News Update.

Business Solutions Series

During the year, there will also be a series of special issues on Business Solutions in the areas of knowledge management, enterprise resource planning; plus managed services and outsourcing: plus a special issue on

March 3

Main theme: The world's largest IT show takes place in Hanover, Germany, in March and our main theme will be The IT Industry in transition Second theme: IT and new

media. Plus our regular features, including If in finance - focus on

the European Central Bank. Mectronic business. ☐ Update on the millennium computer date issue.

April 7 2 Main theme: Internet review in August.

September 1 □ Main theme: IT in retail-

☐ Year 2000 update.

ing.

☐ Second theme: Supply chain management. Plus regular features, ☐ IT in finance - focus on risk management. ☐ Electronic busines

October 6

☐ Main theme: Continuity planning ahead of the milennium "bomb". □ Second theme: IT in education. ☐ Plus regular features.

munications - increasing including ☐ IT in finance - focus on investment banking. ☐ Electronic business

November 3 ☐ Main theme: Continuity

planning for the year 2000 (part two). ☐ Second theme: IT in travel and leisure. D Plus regular features. ☐ IT in finance - focus on

December 1

fund management.

□ Electronic business.

☐ Main theme: The Cyber ☐ Second theme: IT in the search for the stars. □ Plus regular features, including: ☐ IT in finance - focus on securities markets. □ Electronic business

Focus on the imminent

ear 2000 date issue.

Business **Solutions Series** and mid-month IT

During the year, we will also publish a series of extra

specials:

issues, including: ☐ E-Business: March 24. ☐ Knowledge Management: April 28. ☐ Enterprise Resource Plan-

ning: May 26.

Managed Services and IT Outsourcing: June 23. In addition, the FT-IT

Review will carry special features during 1999, includ-☐ South Asian Software

Development: July 7.

Working in the IT Industry: October 6. □ India's IT industry: December 1.

Meanwhile, during February, March and April, a 12part tabloid series, called Mastering Information Management is also appearing with the FT. The first issue, edited by Tim Dickson, appeared on February 1, with the focus on improving company performance. The next issue on February 8 will focus on competing with information. For details of back copies, call: +44 (0) 181

For more information

**Editorial** synopses: For more details of the next two issues of the FT-IT Review, (excluding the series on Mastering Information Manage ment), please use the special fax-u-back service on: 0990 209 903. (Callers outside the UR dial exit code: +44 990 209 903). In the event of problems, send a fax request to Rowena Carr-Allinson, FT-IT Review on 0171 873 3197, or e-mail: Rowena Carr-Allinson@FT.com

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The Millennium Bomb - 47 weeks away

Jan 1

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# Russia is 'extremely vulnerable'

Plans to defuse the so-called millennium 'bomb' are under-control, insists Russia's defence minister, but this view is at odds with the analysis of many western observers

impact of the millennium computer "bomb": for every phe to come, a placating statement of reassurance will be made in return.

Given its strategic and widespread reliance on tech-nology, the defence industry has attracted more speculation and official bolstering than any other.

Consider Britain, for example. In November, Taskforce 2000, the independent pressure group, unveiled a report on the so-called Y2K issue which highlighted the UK's ministry of defence as one of a handful of government departments which faced severe difficulties in attempting to check and fix its computer systems by

George Robertson, the UK defence secretary, called a press conference to allay any fears. Outlining a £200m (\$120m) programme, he

There is one truism in the announced that the 700-man debate over the potential effort had rendered over half the armed forces' computers He also stated that:

☐ There would be no risk of an accidental firing of nuclear weapons through

☐ Royal navy ships and submarines would have their fied by August 1999.

☐ Royal Air Force aircraft. would be millennium compliant by January 1, and be bilities by May next year. Taskforce 2000 remains

pendent think-tank, points the number of systems which needed checking at more than 20,000, a year ago. This figure has now been whittled down to 1,000 "mission critical" applications.

"Prioritisation may make the job seem easier - but the other 19,000 haven't gone

going to get fixed this year? I think the MoD is doing a

However, the scale of the challenge for the UK government pales in comparison biggest defence markets -the US and Russia. Analysts estimate that the testing the two countries must undertake runs into literally millions of systems, all of which are susceptible to the change of date from 1999 to the new

The BritishAmerican Security Information Council (Basic), an independent research organisation. recently produced a damning report on both countries' readiness for the millen-

voiced by John Hamre, US deputy defence secretary, in a recent interview. "Probably one-out-of-five days I wake up in a cold sweat. thinking Y2K is much bigger



New missiles deployed: Russian defence minister Igor Sergeyev, left, meets officers at the control centre of the 104th Missile Regiment near the village of Ta

other four days I think problems facing the US of it. Everything is so interconnected, it's very hard to know with any precision that we've got it fixed."

Department of Defense: ☐ The US armed forces form

an immense organisation with numerous computerbased interfaces between hich must be identified for year 2000 vulnerablilities. The potential for "infection" from outside systems is an ☐ The Pentagon's systems

oftware that are often pro-☐ Shortages of skilled pro-

rammers is exacerbating ☐ Testing systems up to a

have traditionally cut costs by relying on low-cost commercial off-the-shelf chips that are generic and may

have time functions incorpo-

rated in their operation. The ad hoc development of the armed forces' weapons systems, both from a technological and military point of view, has led to "a vast web units and technically complex computer systems, all of interdependence in their

This interdependence is of particular concern with regard to the US nuclear arsenal. The Basic report gives the example of the national network of Command, Control, Communications and Intelligence systems, or C3I as it is

Its ability to monitor the nuclear activities of other nations, detect sea-launch missiles, monitor airspace and track the flight and delivery of warheads, is based upon "a highly interdependent conglomeration of radar arrays, satellites, communications cables, and so

lated test by C31 technicians in 1993 when they rolled the date forward to January 1. 2000. The system was blacked out. However, true to form, the US governmen has played down fears over any inoperability of its frontline defence capability. insisting that preparations

vay. Their confidence does not appear to extend to the former Soviet Union, however. The past year has seen countless offers by the west,

European states prepare for

sian authorities, the situation is "under control". Igor Sergeyev, Russia's defence last year that "this problem mostly affects sectors where they use conventional comons, since in the Strategic Missile Forces we use special technologies."

This view is at odds with the analysis of many observers. The Basic report quotes Sergey Fradkov, a former Soviet satellite control technician, who says from his experience working in the industry that "Russia is extremely vulnerable to the year 2000 problem and an

# the months

ahead

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المراجع والتحق

Full details of forthcoming issues of the monthly FT-IT Review, plus a series of special mid-month issues during 1999, can be

found on Page 15

of this review.

accidental launch is poss ble." Even if the truth in all these situations is somewhere in between the pessimists and the optimistic official versions, many aspects of the defence industry leave

vation of some sensitive destructive weapons ms. Given the continuing debate over the readiness of different countries' nuclear weapons systems, it would seem to be a most sen-

This article on Y2K issues is one through both the US and the of a series by Christopher Price European Union, to help in the monthly FT-IT Review

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